

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**STATE OF CALIFORNIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 1988**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-805

STATE OF CALIFORNIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 1988

FEBRUARY 1989



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STATE OF CALIFORNIA
Office of the Auditor General
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SACRAMENTO, CA 95814

Kurt R. Sjoberg
Acting Auditor General

February 14, 1989

F-805

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents the financial report of the State of California for the year ended June 30, 1988. This financial report includes an introductory section with an overview prepared by the state controller; a financial section with the State's general purpose financial statements presented on a basis in conformity with generally accepted accounting principles (GAAP); and a statistical section with important labor, income, and population statistics.

The financial statements show that the State's General Fund had an excess of expenditures over revenues of approximately \$791 million for the fiscal year end June 30, 1988, and an undesignated fund deficit of \$1.4 billion. However, as explained in our opinion to the financial statements, the actual undesignated deficit may be reduced by an undetermined, but potentially significant, amount depending upon the State's ability to comply with the governor's order to cancel encumbrances outstanding at June 30, 1988, for which the State had not received goods or services as of January 1, 1989.

We conducted this audit to comply with the California Government Code, Section 10534.

Respectfully submitted,

A handwritten signature in cursive script, reading 'Kurt Sjoberg'.

KURT R. SJOBERG
Acting Auditor General

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
STATE CONTROLLER'S LETTER	iii
STATE CONTROLLER'S OVERVIEW	v
OFFICIALS OF THE STATE OF CALIFORNIA	xv
THE EXECUTIVE BRANCH OF THE STATE OF CALIFORNIA	xvi
<u>FINANCIAL SECTION</u>	
AUDITOR'S REPORT	3
GENERAL PURPOSE FINANCIAL STATEMENTS	5
COMBINED BALANCE SHEET	6
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	9
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (BUDGETARY BASIS)	11
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS/FUND BALANCES	13
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION	15
COMBINED BALANCE SHEET UNIVERSITY OF CALIFORNIA FUNDS	17
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES UNIVERSITY OF CALIFORNIA CURRENT FUNDS	19
COMBINED STATEMENT OF CHANGES IN FUND BALANCES UNIVERSITY OF CALIFORNIA FUNDS	21
NOTES TO THE FINANCIAL STATEMENTS	23

TABLE OF CONTENTS (Continued)

<u>STATISTICAL SECTION</u>	<u>Page</u>
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1988	77
GENERAL REVENUES BY SOURCE AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1988	78
RATIO OF GENERAL LONG-TERM BONDED DEBT TO PER CAPITA INCOME FOR FISCAL YEARS ENDED JUNE 30, 1978 THROUGH 1988	79
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1988	80
COMPARISON OF NATIONAL WITH STATE POPULATION CALENDAR YEARS 1940 THROUGH 1987	81
COMPARISON OF NATIONAL WITH STATE PERSONAL INCOME CALENDAR YEARS 1970 THROUGH 1987	82
COMPARISON OF NATIONAL WITH STATE PER CAPITA PERSONAL INCOME CALENDAR YEARS 1970 THROUGH 1987	83
CIVILIAN LABOR FORCE FOR RESIDENT POPULATION AGE 16 AND OVER CALENDAR YEARS 1973 THROUGH 1987	84
PERSONS EMPLOYED IN PRINCIPAL MANUFACTURING INDUSTRIES CALENDAR YEARS 1982 AND 1987	85

INTRODUCTORY SECTION



GRAY DAVIS

Controller of the State of California

SACRAMENTO, CALIFORNIA 94250-5872

February 7, 1989

The People of the State of California
The Honorable George Deukmejian,
Governor of the State of California
The Honorable David Roberti,
Senate President pro Tempore
The Honorable Willie L. Brown, Jr.,
Speaker of the Assembly

Attached are the general purpose financial statements of the State of California prepared in accordance with generally accepted accounting principles. This report meets the disclosure standards of the accounting profession and is primarily intended to meet the needs of users outside of state government. The State of California Annual Report, prepared on a budgetary basis which is in compliance with existing state laws and state accounting principles, should continue to be used as a focal point for past execution of the State's budget as well as for future budget planning.

On a budgetary basis, the General Fund ended the 1987-88 fiscal year with a deficit (undesignated unreserved fund balance) of \$343 million and a zero balance in the Special Fund for Economic Uncertainties. The deficit is comprised of two components: (1) \$83 million of expenditures in excess of available resources; and (2) \$260 million of funds committed by continuing appropriations for ongoing purposes. The reduction of available fund balance for continuing appropriations is in accordance with long standing accounting and budgeting principles utilized by the State and is in accordance with Generally Accepted Accounting Principles (GAAP). Such funds, if unspent, can be freed for other purposes only by legislation.

The poor year-end financial condition of the General Fund was caused mainly by a significant shortfall of personal and corporate income tax revenues. The administrative action taken to reduce expenditures was insufficient to counter the shortfall. The Administration attributes this shortfall to the State's effort to conform its income tax laws with those of the federal government. The zero balance in the Special Fund for Economic Uncertainties (the rainy day fund) resulted from a reduction of \$568 million to help fund the \$1.1 billion tax rebate of excess 1986-87 fiscal year revenues and \$527 million to reduce the General Fund deficit to \$343 million as required by Section 16418(b) of the Government Code.

Additionally, the Administration goal stated in the Governor's Budget of a \$1.1 billion dollar (3%) prudent reserve is not expected to be achieved for the 1988-89 and 1989-90 fiscal years. The 1989-90 Governor's Budget projects a \$3 million balance in the Special Fund for Economic Uncertainties for the 1988-89 fiscal year-end and a \$870 million balance for the 1989-90 fiscal year-end. However, these balances do not reflect the current budgetary deficit of \$343 million at June 30, 1988.

The General Fund, on the basis of generally accepted accounting principles, ended the 1987-88 fiscal year with a deficit (undesignated unreserved fund balance) of \$1.445 billion. A reconciliation between the fund balance of the General Fund on the budgetary basis and the fund balance under generally accepted accounting principles is presented in Note 3 of this report.

We wish to express our appreciation to all state agencies for their cooperative and continued efforts to submit their reports, which are essential to this report's compilation, on a more timely basis. We also wish to thank the Auditor General and his staff for their independent audit of the financial statements contained in this report.

Best Regards,

A handwritten signature in black ink that reads "Gray Davis". The signature is stylized, with the first letters of the first and last names being large and prominent.
GRAY DAVIS
State Controller

STATE CONTROLLER'S OVERVIEW

This report presents the general purpose financial statements of the State of California, prepared in accordance with generally accepted accounting principles (GAAP), for the fiscal year ended June 30, 1988. The State Controller's Office is also required by law to publish the State of California Annual Report (the "budgetary basis financial report"). The budgetary basis financial report is prepared in accordance with statutory and regulatory requirements and is used for reporting on the execution of the State's budget as well as for future budget planning. A reconciliation of the two accounting bases for the State's General Fund, along with an explanation of the major differences, is provided on pages 28 through 33 of this report. A reconciliation showing the differences between the two accounting bases for the special revenue fund balances is provided on pages 34 and 35 of this report.

SIGNIFICANT FINANCIAL INFORMATION

General Fund Deficit

The State's General Fund ended fiscal year 1987-88 with an undesignated deficit of \$343 million on a budgetary basis, \$1,445 million on a GAAP basis, and a fully depleted Special Fund for Economic Uncertainties. This poor year-end financial condition was caused primarily by a significant shortfall in personal and corporate income tax revenues and further exacerbated by a \$1.1 billion tax rebate of 1986-87 fiscal year revenues that reduced the Special Fund for Economic Uncertainties to a zero balance. Administrative action taken during fiscal year 1987-88 to reduce budgeted expenditures was not adequate to counter the revenue deficiency. The Administration attributes this deficit to the State's effort to conform its income tax laws with those of the federal government.

The deficit, on a budgetary basis, results from two components: \$83 million in expenditures in excess of available resources and \$260 million in legally committed funds reserved as "unencumbered balances of continuing appropriations" to support specific programs. Such balances may be made available for other purposes only if unspent and if the appropriations are cancelled by legislation.

Special Fund for Economic Uncertainties

The Special Fund for Economic Uncertainties ended the fiscal year with a zero balance. This fund, as the name implies, is a "rainy day fund." The zero balance results primarily from using \$568 million

to help fund the \$1.1 billion tax rebate of excess 1986-87 fiscal year revenues and \$527 million to reduce the State's General Fund deficit to \$343 million on a budgetary basis.

The Administration goal stated in the Governor's Budget of a \$1.1 billion (3 percent) prudent reserve is not expected to be achieved for fiscal year 1988-89 or 1989-90. The 1989-90 Governor's Budget projects a \$3 million balance in the Special Fund for Economic Uncertainties for the 1988-89 fiscal year end and a \$870 million balance for the 1989-90 fiscal year end. However, these balances do not reflect the current budgetary deficit of \$343 million at June 30, 1988. The balances of the Special Fund for Economic Uncertainties for the years 1985-86 through 1987-88 are shown in Table 1.

TABLE 1
SPECIAL FUND FOR ECONOMIC UNCERTAINTIES (SFEU) BALANCE
(IN MILLIONS)

<u>Fiscal Year</u>	<u>SFEU Balance Budgetary Basis</u>	<u>General Fund Expenditures Budgetary Basis</u>	<u>Percent of General Fund Expenditures</u>
1987-88	\$ 0	\$33,097	0.0
1986-87	\$1,046	\$31,373	3.3
1985-86	\$ 443	\$28,812	1.5

The Special Fund for Economic Uncertainties was created by Chapter 139 of 1985 and amended Section 16418 (a) of the Government Code. It provides the funds for those necessary expenditures throughout the year that have not been anticipated or provided for in the annual budget. The state controller is required to transfer to this fund at the close of each fiscal year the lesser of the following amounts:

- The unencumbered balance in the General Fund.
- The difference between the State's "appropriations subject to limitation" for the fiscal year that ended and its "appropriation limit" as defined in the Budget Act for that fiscal year.

General Fund and Special Revenue Funds
Revenues and Expenditures

Revenues for the State's General Fund and special revenue funds totaled approximately \$44.9 billion for the fiscal year ended June 30, 1988, an increase of 1.9 percent over 1987. The amount of revenues from various sources and the changes from the last fiscal year are shown in Table 2.

TABLE 2
GENERAL FUND AND SPECIAL REVENUE FUND REVENUES (GAAP BASIS)
(IN MILLIONS)

<u>Revenue Source</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) From 1986-87</u>
Taxes	\$31,785	70.8	\$1,134
Intergovernmental	9,533	21.2	(272)
Licenses and permits	1,389	3.1	114
Natural resources	115	.3	71
Charges for services	237	.5	(37)
Fees	785	1.7	157
Penalties	238	.5	(168)
Interest	613	1.4	(41)
Other	<u>225</u>	<u>.5</u>	<u>(115)</u>
Total	<u>\$44,920</u>	<u>100.0</u>	<u>\$ 843</u>

Expenditures for the State's General Fund and special revenue funds totaled \$46.5 billion for the fiscal year ended June 30, 1988, an increase of 4.0 percent over 1987. These expenditures provided a comprehensive range of governmental services in the areas of education, social services, health and environmental services, transportation, mental health, law, justice, public safety, recreation and resources development, public improvements, and general administrative services.

Changes in expenditures by function from the last fiscal year levels are presented in Table 3.

TABLE 3
GENERAL FUND AND SPECIAL REVENUE FUND EXPENDITURES (GAAP BASIS)
(IN MILLIONS)

<u>Function</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) From 1986-87</u>
General government	\$ 1,842	4.0	\$ (38)
Education	18,873	40.6	631
Health and welfare	17,041	36.6	541
Resources	765	1.6	(2)
State and consumer services	1,124	2.4	330
Business and transportation	3,305	7.1	305
Correctional programs	1,846	4.0	(9)
Property tax relief	1,012	2.2	19
Capital outlay	1		(11)
Debt service	<u>678</u>	<u>1.5</u>	<u>39</u>
Total	<u>\$46,487</u>	<u>100.0</u>	<u>\$1,805</u>

Debt Administration

The State continues to maintain its superior bond accreditation from Standard and Poor's Corporation (AAA), Fitch Investors Service (AAA), and Moody's Investors Service (Aa). General obligation bond debt decreased from \$8.028 billion at June 30, 1987, to \$8.007 billion at June 30, 1988. While bonded debt decreased by approximately \$21 million, \$1.7 billion in AB 55 bond loans was authorized by the Pooled Money Investment Board. These loans, which are explained in the following section on Bonded Debt Policy, are short term loans used to fulfill the requirements of the Federal Tax Reform Act of 1986 and are held until the bonds are issued. Had the authorized bonds been issued instead of using loans from the Pooled

Money Investment Account, the General Obligation Bond Debt would have increased by the same or a greater amount.

To provide for cash flow, the State usually issues revenue anticipation notes at the beginning of each fiscal year. The State issued \$2.1 billion in notes for fiscal year 1987-88, which were repaid by June 30, 1988. For fiscal year 1988-89, the State has already issued \$3.2 billion in revenue anticipation notes. These notes, issued in August 1988, will mature on June 30, 1989, and will be payable from available monies in the State's General Fund, including, if necessary, amounts that may be borrowed from other funds in the treasury.

Bonded Debt Policy

The Federal Tax Reform Act of 1986 requires the State to pay the federal government any profit that it earns from investing tax-exempt bond proceeds at a higher interest rate than that which it pays on the bond issue. To comply with federal regulations, AB 55 (Chapter 6, Statutes of 87) was enacted to authorize the Pooled Money Investment Board to make loans from the Pooled Money Investment Account to a special fund that is utilized to carry out the provisions authorized in the bond act before the issuance of the bonds. When the bonds are issued, the special fund, using the bond proceeds, immediately repays the loan. This is to ensure that no profit is earned on the bond proceeds. Interest is based on rates established by the Pooled Money Investment Board and is paid by the special fund, if authorized in the bond act and, if not, by the State's General Fund.

Cash Investment

The State combines its surplus cash into a general account, the Pooled Money Investment Account, which it utilizes to make investments in various types of securities. The average daily investment balance for the fiscal year ended 1987-88 amounted to \$17.6 billion. For fiscal year 1987-88, the average effective yield in investments was 7.87 percent as compared to a yield of 7.43 percent during fiscal year 1986-87.

According to the Pooled Money Investment Board, Thirty-Second Annual Report, Fiscal Year 1987-88, total interest received from available balances was \$1.39 billion. Of this amount, the State's General Fund received \$412 million, special funds received \$596 million and local governments received \$380 million.

The Pooled Money Investment Account Portfolio is shown in Table 4.

TABLE 4
POOLED MONEY INVESTMENT ACCOUNT PORTFOLIO

<u>Type of Security</u>	<u>Average Daily Portfolio (in millions)</u>	<u>Percent of Portfolio</u>	<u>Annual Earnings (in millions)</u>	<u>Average Effective Yield</u>
Money market	\$ 8,688,534	49	\$ 672,547	7.7
Government securities	3,954,952	22	315,464	8.0
Corporate bonds	2,621,629	15	223,699	8.53
AB 55 loans	1,161,214	7	88,986	7.66
Time deposits	636,576	4	47,116	7.4
Repurchase agreements	<u>565,651</u>	<u>3</u>	<u>40,260</u>	<u>7.12</u>
Total Portfolio	<u>\$17,628,556</u>	<u>100</u>	<u>\$1,388,072</u>	<u>7.87</u>

SIGNIFICANT FINANCIAL EVENTS
AFTER JUNE 30, 1988

Passage of Propositions 98 and 99

In the November 1988 General Election, the voters approved Propositions 98 and 99. These two propositions will change budgeted spending priorities of the State's General Fund and revise the state spending limitation requirements. Proposition 98 establishes a minimum level of funding for public schools and community colleges. This minimum level is the larger of the percentage of General Fund revenues appropriated for school districts and community colleges in fiscal year 1986-87, or the state and local tax revenues received in the prior year adjusted for changes in inflation and increased enrollment. The Legislative Analyst in the January 1989 Statement to the Senate Committee on Budget and Fiscal Review has stated that this measure would result in additional General Fund costs of about \$174 million in 1988-89. This would bring the funding for public schools and community colleges to the same percentage level the schools and colleges had in 1986-87. These allocations do not constitute appropriations subject to limitation, but the spending limitation will be annually increased for such allocations made in the prior year. Proposition 98 also amends

the state spending limitation in that any tax revenues in excess of the State's appropriation limit, not to exceed 4 percent of the minimum school funding level, must be distributed to public schools and community colleges rather than returned to the taxpayers. Any remaining amount above this limit would be returned to the taxpayer. The Legislative Analyst estimates this limit to be \$500 million in fiscal year 1988-89.

Proposition 99 increases tobacco taxes by 25 cents for each pack of 20 cigarettes with an equivalent tax rate for other tobacco products. This additional revenue will pay for health programs such as health education, research into tobacco-related diseases, and to restore park and wildlife resources. These taxes will not be counted as tax revenue under the state spending limitation. The 1989-90 Governor's Budget contains estimates indicating that this measure would raise additional state revenues of approximately \$300 million in 1988-89 (part year) and \$625 million in 1989-90 (first full year).

Change in Accounting Policy

On January 10, 1989, the Department of Finance announced through the Governor's Budget that the State was adopting in the Governor's 1989-90 Budget the generally accepted accounting principles (GAAP) treatment of only a certain portion of General Fund encumbrances (\$259 million out of a total of \$384 million) as a reservation of fund balance rather than expenditures. This principle has not been applied to the budgetary basis statements presented for 1987-88; however, if it had been applied at June 30, 1988, its overall effect would have been to decrease expenditures by \$259 million and increase reserve for encumbrances by \$259 million with no effect on the deficit of \$343 million.

Cancellation of Encumbered Contracts

The Department of Finance instructed state departments through a memorandum dated January 12, 1989, to cancel contracts encumbered against the State's General Fund at June 30, 1988, for which goods and services had not yet been received. This program is designed to reduce General Fund expenditures and revert the funds. The effects of this program, which are largely unknown at this time, are not reflected in the financial statements because such contracts represented legal encumbrances against the General Fund at June 30, 1988.

ACCOUNTING, BUDGETARY, AND INTERNAL CONTROL SYSTEMS

The State prepares an annual financial plan that contains estimates of revenues and expenditures and enacts into law an annual budget. This budget is the result of negotiations between the governor and state Legislature. Throughout the year, adjustments agreed to by the parties are made to the budget. These are contained in budget

revisions, executive change orders, and financial legislation. The methods of accounting for expenditures against the budget are governed by state laws and regulations that, in some cases, are not in full agreement with generally accepted accounting principles.

The state controller is statutorily responsible for maintaining control over revenues due to the State and the expenditure of each appropriation contained in the budget. Budgeted appropriations are the expenditure authorizations that allow state agencies to purchase or create liabilities for goods and services. The State Controller's Office maintains audit processes that provide assurance that all state agency payments for goods and services are proper and are within the appropriations authorizing the expenditures.

The design of the State's accounting system provides the State Controller's Office with a centralized control record system to fully account for each budgeted appropriation, including its unexpended balance, and for all cash receipts and disbursements. The accounting system is decentralized in that the detail of each control account is maintained at the agency level. Throughout the year, the control accounts and agency accounts are maintained and reconciled on a cash basis. At the end of the fiscal year, each agency prepares annual accrual reports for accounts receivable and payable. Encumbrances of appropriations are maintained through the year at the state agency level and are reported as reservations for fund balances at June 30 on a GAAP basis and as liabilities on a budgetary basis. The State Controller's Office prepares the State of California Annual Report, the "budgetary basis financial report," using the cash basis control accounts and the annual accrual reports prepared by the agencies. The budgetary basis report is then adjusted to conform with generally accepted accounting principles, and the general purpose financial statements are prepared.

The State's system of internal accounting controls is designed to provide reasonable, but not absolute, assurance that (1) transactions are executed in accordance with management's authorization; (2) assets are protected against loss from unauthorized use or disposition; and (3) financial records are reliable for preparing financial statements and maintaining accountability for assets and obligations.

The Reporting Entity and Its Services

The funds and account groups included in the general purpose financial statements are controlled by or dependent on the California State Government. The University of California is a dependent unit, which is considered a part of the California State Government. Determination of "controlled by or dependent on" is based on criteria developed by the National Council on Governmental Accounting in its Statement 3, Defining the Governmental Reporting Entity. The criteria

deals with the appointment of the board, designation of management, scope of public service, and the ability to significantly influence operations.

General Fixed Assets

The State is in the process of developing adequate fixed asset records for its governmental fund type property, plant, and equipment to meet the requirements of generally accepted accounting principles.

INDEPENDENT AUDIT

State statutes require an annual audit of the general purpose financial statements of the State. To meet this requirement, the Office of the Auditor General has examined the accompanying financial statements in accordance with generally accepted auditing standards. The auditor's opinion is included in this report.

**OFFICIALS OF THE
STATE OF CALIFORNIA**

EXECUTIVE

George Deukmejian
Governor

Leo T. McCarthy
Lieutenant Governor

Gray Davis
State Controller

John Van de Kamp
Attorney General

Thomas W. Hayes
State Treasurer

March Fong Eu
Secretary of State

Bill Honig
Superintendent of Public Instruction

LEGISLATIVE

David Roberti
President pro Tempore, Senate

Willie L. Brown, Jr.
Speaker of the Assembly

JUDICIAL

Malcolm M. Lucas
Chief Justice, State Supreme Court

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FINANCIAL SECTION



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STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Acting Auditor General

Members of the Joint Legislative Audit Committee
State of California

We have examined the general purpose financial statements of the State of California as of and for the year ended June 30, 1988, as listed in the table of contents. These financial statements are the responsibility of the State of California. Our responsibility is to express an opinion on these statements based on our audit. We did not examine the financial statements of the pension trust funds, which reflect total assets constituting 78 percent of the fiduciary funds. We also did not examine the financial statements of certain enterprise funds, which reflect total assets and revenues constituting 93 percent and 96 percent, respectively, of the enterprise funds. In addition, we did not examine the University of California funds. The financial statements of the pension trust funds, certain enterprise funds, and the University of California funds referred to above were examined by other auditors who furnished their reports to us, and our opinion, insofar as it relates to the amounts included for the pension trust funds, certain enterprise funds, and the University of California funds, is based solely upon the reports of other independent auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

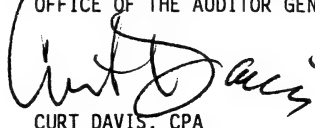
The State has not maintained adequate fixed asset records for its governmental fund type property, plant, and equipment. Consequently, the General Fixed Assets Account Group is not presented in the accompanying financial statements as required by generally accepted accounting principles.

As discussed in Note 26 to the financial statements, the governor ordered the cancellation of certain General Fund encumbrances outstanding at June 30, 1988, for which the State has not received goods or services as of January 1, 1989. The governor estimates that this cancellation of encumbrances will amount to \$80 million. However, the governor has not identified specific purchase orders and contracts to be cancelled. Thus, the amount of such cancellations cannot be verified at this time. Therefore, the fund balance reserved for encumbrances at June 30, 1988, does not reflect any reduction for the cancelled encumbrances.

In our opinion, based upon our audit and the reports of other auditors, and except for the effect of the omission of the General Fixed Assets Account Group and the effect of the uncertainty surrounding the cancellation of encumbrances outstanding at June 30, 1988, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of California as of June 30, 1988, and the results of its operations and the changes in financial position of its proprietary funds and pension trust funds for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 4 to the financial statements, the State changed the classification of continuing appropriations.

We have not audited the data included in the statistical section in this report, and accordingly, we express no opinion on that data.

OFFICE OF THE AUDITOR GENERAL

CURT DAVIS, CPA
Deputy Auditor General

December 16, 1988, except as
to the information in Note 26
for which the date is January 11, 1989.

GENERAL PURPOSE FINANCIAL STATEMENTS

STATE OF CALIFORNIA
COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUP
AS OF JUNE 30, 1988
(IN THOUSANDS)

	Governmental Fund Types		Proprietary Fund Types		Fiduciary Fund Type	Account Group
	General	Special Revenue	Capital Projects	Enterprise		
ASSETS						
Cash and pooled investments	\$ 105,471	\$1,451,782	\$422,048	\$ 3,095,752	\$ 8,661,681	\$ 2,262,801
Investments				4,960,562	64,086,555	10,624,139
Amount on deposit with United States Treasury					4,391,840	
Receivables (net)	88,558	83,165	561	550,172	2,164,726	825,344
Due from other funds	1,423,522	2,583,120	210,312	298,689	2,730,647	169,300
Due from other governments	32,776	1,547,732	1	59,274	183,344	54,186
Prepaid expenses	129,573	137,230	31	1,137	17,247	
Inventory, at cost				30,823	46,620	67,447
Other assets	911	3,041	163	45,068	64,759	137,769
Advances and loans receivable					130,496	33,714
Deferred charges	211,528	637,443	1,085	6,036,308		22,608
Fixed assets				1,147,299	6,598	6,396,580
Amounts to be provided for retirement of long-term obligations				4,516,439		
Total Assets	\$1,992,339	\$6,443,513	\$634,201	\$20,741,523	\$82,437,893	\$5,486,535
						\$20,593,888

LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts payable	\$ 315,371	\$ 321,706	\$101,198	\$ 203,266	\$ 1,741,339	\$ 716,441
Obligations under reverse repurchase agreements					62,997	
Due to other funds	1,202,258	2,956,258	510,688	619,871	2,180,238	74,693
Due to other governments	408,994	952,109	6,429	44,932	6,604,157	
Dividends payable				58,000		
Advances from other funds		23,004	15,629	807,028	19,211	33,714

Tax overpayments	206,931	2,047				86,862		
Benefits payable						372,668		
Deposits	831	5,841				1,296,396		408,071
Contracts and notes payable								
Lottery prizes and annuities								
Compensated absences payable								
Mortgages and other borrowings	80,729						\$ 387,105	613,025
Net assets available for University of California retirement benefits								10,303,833
Capital lease obligations								
Advance collections	252,228	35,773				6,250	1,307,148	
General obligation bonds payable								
Revenue bonds payable							3,248,925	877,088
Interest payable	91,629							
Other liabilities	23,170	55,434					543,357	
						429,259		
Total Liabilities	2,582,141	4,352,172	634,494	17,030,774	223,077	12,799,377	5,486,535	13,026,865
Fund Equity								
Contributed capital				212,780				5,481,180
Investment in general fixed assets								
Retained earnings								
Reserved for regulatory requirements				405,108				
Unreserved				3,092,861				
Fund balances								
Reserved for encumbrances	383,736	1,293,119	238,655			107,821		
Reserved for advances and loans	211,528	637,443	1,085					
Reserved for employees' retirement system						63,905,087		
Reserved for continuing appropriations	220,338	1,068,716	103,183					
Reserved for other specific purposes	39,306	91,277					1,058	965,705
Unreserved								
Designated for University of California								
Undesignated (deficits)	(1,444,710)	(999,214)	(343,216)			5,624,550		1,120,138
Total Fund Equity (Deficits)	(589,802)	2,091,341	(293)	3,710,749	222,641	69,638,516		7,567,023
Total Liabilities and Fund Equity	\$1,992,339	\$6,443,513	\$634,201	\$20,741,523	\$445,718	\$82,437,893	\$5,486,535	\$20,593,888

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1988
(IN THOUSANDS)

	Governmental Fund Types			Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Expendable Trust
Revenues				
Taxes	\$30,997,884	\$ 787,078		\$3,910,110
Intergovernmental		9,532,594		652
Licenses and permits	150,979	1,238,607		
Natural resources	101,926	13,640	\$109,774	
Charges for services	113,121	124,043		79,199
Fees	306,344	478,253		916
Penalties	9,007	228,593		
Interest	444,751	168,217		431,690
Other	100,151	124,954		108,506
Total Revenues	<u>32,224,163</u>	<u>12,695,979</u>	<u>109,774</u>	<u>4,531,073</u>
Expenditures				
Current				
General government	1,074,177	768,154		85,991
Education	17,474,851	1,398,462		48,527
Health and welfare	10,251,009	6,789,852		3,259,669
Resources	445,696	319,480		4,949
State and consumer services	218,703	905,148		94,114
Business and transportation	72,760	3,232,228		10,803
Correctional programs	1,720,414	125,698		
Property tax relief	1,011,781			
Capital outlay	902		685,355	3
Debt service				
Principal retirement	278,610			
Interest and fiscal charges	399,730			
Total Expenditures	<u>32,948,633</u>	<u>13,539,022</u>	<u>685,355</u>	<u>3,504,056</u>
Other Financing Sources (Uses)				
Proceeds from general obligation bonds		105,800	55,000	
Operating transfers in	158,940	882,234	166,395	59,981
Operating transfers out	(225,558)	(1,292,552)	(30,667)	(62,622)
Total Other Financing Sources (Uses)	<u>(66,618)</u>	<u>(304,518)</u>	<u>190,728</u>	<u>(2,641)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(791,088)	(1,147,561)	(384,853)	1,024,376
Fund Balances, July 1, 1987	<u>201,286</u>	<u>3,238,902</u>	<u>384,560</u>	<u>4,709,053</u>
Fund Balances (Deficits), June 30, 1988	<u>\$ (589,802)</u>	<u>\$ 2,091,341</u>	<u>\$ (293)</u>	<u>\$5,733,429</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1988
(IN THOUSANDS)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
Revenues						
Taxes		\$31,140,700			\$ 128,915	
Intergovernmental					10,068,465	
Licenses and permits		150,979			1,238,607	
Natural resources		101,926			13,640	
Charges for services		76,773			121,283	
Fees		306,344			478,253	
Penalties		6,252			228,593	
Interest		440,990			169,378	
Other		<u>131,464</u>			<u>136,655</u>	
Total Revenues		<u>32,355,428</u>			<u>12,583,789</u>	
Expenditures						
Current						
General government	\$ 1,314,183	1,070,832	\$243,351	\$ 861,195	753,891	\$ 107,304
Education	17,557,223	17,503,309	53,914	1,597,504	1,402,406	195,098
Health and welfare	10,623,424	10,353,272	270,152	7,658,730	7,287,972	370,758
Resources	463,223	461,705	1,518	685,374	607,316	78,058
State and consumer services	253,833	234,639	19,194	873,081	730,909	142,172
Business and transportation	67,067	64,200	2,867	3,377,332	3,196,897	180,435
Correctional programs	1,746,166	1,720,466	25,700	199,542	195,781	3,761
Property tax relief	1,021,680	1,012,074	9,606			
Capital outlay	902	902				
Debt service						
Principal retirement	276,840	276,840				
Interest and fiscal charges	<u>398,967</u>	<u>398,967</u>				
Total Expenditures	<u>\$33,723,508</u>	<u>33,097,206</u>	<u>\$626,302</u>	<u>\$15,252,758</u>	<u>14,175,172</u>	<u>\$1,077,586</u>
Other Financing Sources (Uses)						
Proceeds from general obligation bonds					105,800	
Operating transfers in		223,661			3,951,771	
Operating transfers out		(1,336,603)			(3,346,462)	
Other additions		<u>35,128</u>				
Total Other Financing Sources (Uses)		<u>(1,077,814)</u>			<u>711,109</u>	
Expenditures and Other Uses Over Revenues and Other Sources		(1,819,592)			(880,274)	
Fund Balances, July 1, 1987, as restated		<u>1,736,733</u>			<u>1,037,544</u>	
Fund Balances (Deficit), June 30, 1988		<u>\$ (82,859)</u>			<u>\$ 157,270</u>	

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS/FUND BALANCES
ALL PROPRIETARY FUND TYPES AND PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1988
(IN THOUSANDS)

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>
Operating Revenues			
Lottery ticket sales	\$2,106,492		
Services and sales	721,537	\$648,668	
Earned premiums, net	1,481,022		\$ 6,538,178
Investment and interest	803,224		4,576,156
Contributions			1,488
Other	<u>4,377</u>	<u>171</u>	<u>1,488</u>
Total Operating Revenues	<u>5,116,652</u>	<u>648,839</u>	<u>11,115,822</u>
Operating Expenses			
Lottery prizes	1,047,891		
Personal services	152,305	296,169	34,281
Supplies	25,987	6,488	
Services and charges	647,662	320,238	50,396
Depreciation	71,580	19,661	
Benefit payments	1,238,649		3,152,758
Interest expense	592,271		
Refunds			164,775
Accrual of deferred charges	<u>(28,864)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>3,747,481</u>	<u>642,556</u>	<u>3,402,210</u>
Operating Income	<u>1,369,171</u>	<u>6,283</u>	<u>7,713,612</u>
Nonoperating Revenues (Expenses)			
Grants received	1,292		
Grants provided	(24,218)		
Interest revenue	233,679	1,677	
Rent	59,102		
Interest expense and fiscal charges	(183,119)	(1,575)	
Loss on early extinguishment of debt	<u>(6,421)</u>	<u> </u>	<u> </u>
Total Nonoperating Revenues (Expenses)	<u>80,315</u>	<u>102</u>	
Operating transfers in	17,343	10,677	
Operating transfers out	<u>(8,893)</u>	<u> </u>	
Operating Transfers	<u>8,450</u>	<u>10,677</u>	
Net Income	1,457,936	17,062	7,713,612
Dividends paid	(293,465)		
Lottery payments for education	(800,473)		
Retained Earnings/Fund Balances July 1, 1987, as restated	<u>3,133,971</u>	<u>143,943</u>	<u>56,191,475</u>
Retained Earnings/Fund Balances June 30, 1988	<u>\$3,497,969</u>	<u>\$161,005</u>	<u>\$63,905,087</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES AND PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1988
(IN THOUSANDS)

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>
Sources of Financial Resources			
From operations			
Net income	\$1,457,936	\$ 17,062	\$ 7,713,612
Add (deduct) items not affecting cash			
Depreciation	71,580	19,661	
Amortization of bond discounts	10,240		(70,029)
Amortization of deferred development costs	741		
Loss on early extinguishment of debt	6,421		
Amortization of deferred expenses	2,999		
Imputed interest earnings	<u>(18,377)</u>		
Total Sources From Operations	1,531,540	36,723	7,643,583
Proceeds from sale of investments	611,071		14,448,051
Collection of advances and loans	521,917	76	2,777,443
Proceeds from sale of fixed assets	89,208	5,685	
Increase in advances from other funds	65,892	1,192	
Increase in benefits payable	514,693		21,845
Increase in lottery prizes and annuities	331,616		
Issuance of general obligation and revenue bonds	1,087,363		
Additions to contributed capital		25,158	
Decrease in other asset accounts	51,837		136,028
Increase in accounts payable	13,758	9,243	73,841
Increase in due to other funds	452,602		
Increase in advance collections	34,868	13,386	
Increase in other liability accounts	<u>62,799</u>	<u>4,687</u>	<u>118,039</u>
Total Sources	<u>5,369,164</u>	<u>96,150</u>	<u>25,218,830</u>
Uses of Financial Resources			
Purchase of investments	2,101,461		25,892,192
Advances and loans provided	920,518	2,352	
Acquisition of fixed assets	510,287	56,710	4,875
Decrease in advances from other funds	82,788		
Decrease in contracts and notes payable	104,827		
Decrease in lottery prizes and annuities	45,553		
Decrease in capital lease obligations	31,765	1,811	
Retirement of general obligation and revenue bonds	719,428		
Addition to unamortized water project costs	6,363		
Return of contributed capital	3		
Dividends paid	293,465		
Lottery payments to education	800,473		
Increase in accounts receivable	304,538	602	61,225
Increase in due from other funds	188,747	61,864	77,236
Increase in other asset accounts	13,567	8,367	
Decrease in other liability accounts	<u>3,216</u>	<u>16,316</u>	
Total Uses	<u>6,126,999</u>	<u>148,022</u>	<u>26,035,528</u>
Net Decrease in Cash and Pooled Investments	<u>\$ (757,835)</u>	<u>\$(51,872)</u>	<u>\$ (816,698)</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED BALANCE SHEET
UNIVERSITY OF CALIFORNIA FUNDS
AS OF JUNE 30, 1988
(IN THOUSANDS)

	Current Funds	Loan Funds	Endowment & Similar Funds	Plant Funds	Retirement System Funds	Total
ASSETS						
Cash and pooled investments	\$1,099,637	\$ 54,978	\$118,996	\$ 899,116	\$ 90,074	\$ 2,262,801
Investments			553,518		10,070,621	10,624,139
Receivables (net)	472,865	224,323	4,671		123,485	825,344
Due from other funds	94,607				74,693	169,300
Due from other governments	54,186					54,186
Inventory	67,447					67,447
Other assets	132,877			4,892		137,769
Advances and loans receivable			33,714			33,714
Deferred charges	22,608					22,608
Fixed assets				6,396,580		6,396,580
Total Assets	<u>\$1,944,227</u>	<u>\$279,301</u>	<u>\$710,899</u>	<u>\$7,300,588</u>	<u>\$10,358,873</u>	<u>\$20,593,888</u>
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts payable	\$ 616,975		\$ 4,926	\$ 40,324	\$ 54,216	\$ 716,441
Due to other funds	63,780			10,089	824	74,693
Advances from other funds		\$ 6,269		27,445		33,714
Deposits	366,023		42,048			408,071
Mortgages and other borrowings	75,000			538,025		613,025
Net assets available for University of California retirement benefits					10,303,833	10,303,833
Revenue bonds payable		60,798		816,290		877,088
Total Liabilities	<u>1,121,778</u>	<u>67,067</u>	<u>46,974</u>	<u>1,432,173</u>	<u>10,358,873</u>	<u>13,026,865</u>
Fund Equity						
Investment in general fixed assets				5,481,180		5,481,180
Fund balances						
Reserved for other specific purposes	273,629	164,378	431,149	96,549		965,705
Unreserved						
Designated for University of California	548,820	47,856	232,776	290,686		1,120,138
Total Fund Equity	<u>822,449</u>	<u>212,234</u>	<u>663,925</u>	<u>5,868,415</u>		<u>7,567,023</u>
Total Liabilities and Fund Equity	<u>\$1,944,227</u>	<u>\$279,301</u>	<u>\$710,899</u>	<u>\$7,300,588</u>	<u>\$10,358,873</u>	<u>\$20,593,888</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
UNIVERSITY OF CALIFORNIA CURRENT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1988
(IN THOUSANDS)

Revenues and Other Additions	
Tuition and fees	\$ 388,665
Federal appropriations, grants, and contracts	812,471
State appropriations, grants, and contracts	1,967,230
Private gifts, grants, and contracts	247,498
Sales and services	
Educational activities	370,703
Auxiliary enterprises	338,394
Teaching hospitals	969,685
Local government	40,398
Major Department of Energy laboratories	2,076,628
Other	<u>246,090</u>
Total Revenues and Other Additions	<u>7,457,762</u>
Expenditures and Other Deductions	
Instruction	1,318,734
Research	906,113
Public services	115,099
Academic support	514,885
Teaching hospitals	979,817
Student services	186,643
Institutional support	307,137
Operation and maintenance of plant	224,457
Student financial aid	168,348
Auxiliary enterprises	287,110
Major Department of Energy laboratories	2,065,141
Other	<u>19,015</u>
Total Expenditures and Other Deductions	<u>7,092,499</u>
Other Financing Uses	
Transfers out	<u>(270,375)</u>
Net Increase in Fund Balance	94,888
Fund Balances, July 1, 1987	<u>727,561</u>
Fund Balances, June 30, 1988	<u>\$ 822,449</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
UNIVERSITY OF CALIFORNIA FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1988
(IN THOUSANDS)

	Current Funds	Loan Funds	Endowment & Similar Funds	Plant Funds
Revenues and Other Additions				
Unrestricted current fund revenues				
General	\$2,796,241			
Auxiliary enterprises and hospitals	1,308,079			
Restricted gifts, grants, and contracts	3,107,352	\$ 352	\$ 20,118	\$ 53,973
Investment and interest income	120,007	3,827	984	46,264
Net gain (loss) on sale of investments	(466)		35,693	3,112
Governmental grants and contracts		1,560		425
Debt service fees				6,273
Governmental appropriations				46,202
Expended for plant facilities (including \$376,097 financed from current funds)				554,658
Retirement of indebtedness				55,096
Other	<u>126,549</u>	<u>7,025</u>	<u>30</u>	<u>2,854</u>
Total Revenues and Other Additions	<u>7,457,762</u>	<u>12,764</u>	<u>56,825</u>	<u>768,857</u>
Expenditures and Other Deductions				
Current fund expenditures	7,073,484			
Plant fund expenditures				190,789
Debt service				
Principal retirement				55,096
Interest				63,122
Disposals of plant assets				101,697
Other	<u>19,015</u>	<u>12,252</u>	<u>199</u>	<u>6,609</u>
Total Expenditures and Other Deductions	<u>7,092,499</u>	<u>12,252</u>	<u>199</u>	<u>417,313</u>
Transfers in (out)	<u>(270,375)</u>	<u>1,822</u>	<u>16,483</u>	<u>252,070</u>
Net Increase in Fund Balances	94,888	2,334	73,109	603,614
Fund Balances, July 1, 1987	<u>727,561</u>	<u>209,900</u>	<u>590,816</u>	<u>5,264,801</u>
Fund Balances, June 30, 1988	<u>\$ 822,449</u>	<u>\$212,234</u>	<u>\$663,925</u>	<u>\$5,868,415</u>

See the notes accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Definition of the Reporting Entity

The general purpose financial statements present information on the financial activities of the State of California (State) over which the governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. The financial statements include accounts of various boards, commissions, agencies, authorities, retirement systems, the workers' compensation insurance fund, and the State's public universities.

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1988. Except for the University of California, as explained below, the financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board, by the American Institute of Certified Public Accountants, and by the Financial Accounting Standards Board. The financial statements of the University of California have been prepared in conformity with generally accepted accounting principles as prescribed by the National Association of College and University Business Officers and by the American Institute of Certified Public Accountants.

The University of California receives an annual appropriation from the State's General Fund. For the year ended June 30, 1988, approximately \$1.9 billion was accrued or disbursed from the General Fund to the University of California. This amount is recorded as revenues and expenditures in both the General Fund and the University of California funds and is reported as such in the accompanying financial statements. Thus, these revenues and expenditures are reported twice.

Included in the State's general purpose financial statements are the financial statements of the State Compensation Insurance Fund as of and for the year ended December 31, 1987. The State Compensation Insurance Fund represents 15.1 percent and 31.8 percent, respectively, of the assets and revenues of the enterprise funds.

B. Fund Accounting

The financial activities of the State accounted for in the accompanying financial statements have been classified as follows:

Governmental Fund Types

The governmental fund types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types:

The State's General Fund is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

Special Revenue Funds account for transactions related to resources obtained from specific revenue sources (other than for expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

Proprietary Fund Types

The proprietary fund types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided. The proprietary fund types are as follows:

Enterprise Funds account for goods or services provided to the general public on a continuing basis either where the State intends that all or most of the cost involved is to be financed by user charges or where periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

Internal Service Funds account for goods or services provided to other funds, agencies, departments, or governments on a cost-reimbursement basis.

Fiduciary Fund Types

The fiduciary fund types are used to account for assets held by the State either as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The fiduciary fund types are as follows:

Expendable Trust Funds account for assets held in a trustee capacity where both principal and income may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems.

Agency Funds account for assets held by the State as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

General Long-Term Obligations Account Group

This account group records unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

University of California

The University of California uses the following types of funds to account for its activities:

Current Funds account for unrestricted funds that are expendable in pursuing the objectives of the University of California, over which the Regents of the University of California retain control, and for externally restricted funds that may be used only in accordance with specified purposes.

Loan Funds account for resources available primarily for loans to students. In addition, certain resources are also available for loans to faculty and staff.

Endowment and Similar Funds - Endowment funds are invested in perpetuity, and the income is used in accordance with restrictions imposed by donors. Funds functioning as endowments are established by the regents, and both principal and income may be expended.

Plant Funds account for resources available to acquire properties, to service the debt related to properties, to provide for the renewal and replacement of

properties, and to account for funds invested in properties. Fixed assets of major laboratories of the United States Department of Energy are federally owned and are not included in the plant funds.

Retirement System Funds account for assets and liabilities of the University of California Retirement System. Certain employees of the University of California are members of the Public Employees' Retirement System.

C. Basis of Accounting

Governmental Fund Types, Expendable Trust Funds, and Agency Funds

The accounts of the governmental fund types and expendable trust funds are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Tax revenues generally are recognized when cash is received and are adjusted when overpayments and underpayments of taxes can be identified. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

The State's accounting practices include an exception to the modified accrual basis of accounting with respect to vacation-leave expenditures. These expenditures are recorded when paid because no satisfactory basis exists for determining the current liability. However, the liability for earned vacation of academic year faculty of the California State University and the special schools of the State Department of Education is accrued at June 30, as explained in Note 12.

The State also uses encumbrance accounting for budgetary control purposes. On the financial statements prepared in accordance with generally accepted accounting principles, encumbrances are shown as a reservation of fund balance.

Agency funds are custodial in nature and do not measure the results of operations. Receivables and payables are recorded using the modified accrual basis of accounting.

Proprietary Fund Types and Pension Trust Funds

The accounts of these fund types are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses

are recognized when the liabilities are incurred. Lottery revenue and the related prize expense are recognized when tickets are sold. Lottery prize expense is based upon a predetermined prize structure. Grand prizes of \$100 thousand or more from the Lotto game are payable in deferred installments. Grand prizes of \$1 million or more from the instant ticket game are also payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

University of California

The University of California funds are accounted for on the accrual basis of accounting except for depreciation, which is recorded only on the investments of endowment and similar funds in real estate. Accrued compensated absences and other immaterial accruals and deferrals are omitted.

D. Fixed Assets

General Fixed Assets Account Group

The General Fixed Assets Account Group is not presented on the combined balance sheet.

Proprietary Fund Types

Fixed assets, consisting of property, plant, and equipment, are stated either at cost or at fair market value at the date of acquisition, less accumulated depreciation. (See Note 11 for detail.) Water projects, which represent 67.5 percent of the depreciable fixed assets of the enterprise funds, are depreciated over their service lives ranging from 30 to 100 years. Toll bridge facilities, which represent 19.1 percent of the depreciable fixed assets of the enterprise funds, are not depreciated. Most of the remaining assets are depreciated over their estimated service lives using the straight-line method of depreciation.

Fiduciary Fund Types

Equipment in the pension trust funds is recorded at cost if purchased. The fixed assets are not depreciated.

University of California

Plant and equipment assets are recorded at cost if purchased. They are recorded at fair market value at the date of acquisition if donated. The fixed assets of the plant funds are not depreciated.

E. Budgetary Accounting

The State's annual budget is prepared on a modified accrual basis. The governor recommends a budget for approval by the Legislature each fiscal year. Under state law, the State cannot adopt a spending plan that exceeds anticipated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the budget act, as approved by the Legislature and signed by the governor, are the primary sources of annual expenditure authorizations. The budget can be amended throughout the year by special legislative appropriations, budget revisions, or executive orders. Amendments to the initial budget for fiscal year 1987-88 were legally made, and they are included in the budget data in the accompanying financial statements.

Appropriations are generally available for expenditure or encumbrance either in the fiscal year appropriated or for a period of three years if the legislation does not specify a period of availability. Some appropriations continue indefinitely and are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period of availability of the appropriation. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office maintains overall control of all appropriations and will not disburse funds in excess of an appropriation.

3. Budgetary Basis Financial Statements

A. Budgeted Revenues

In the annual budgeting process, the governor estimates revenues. However, revenues are not included in the budget adopted by the Legislature.

B. General Fund Reconciliation of Budgetary Basis With GAAP Basis

The State annually reports the State's financial condition based on generally accepted accounting principles (GAAP basis) and also based on the State's budgetary provisions (budgetary basis). The State of California Annual Report (the budgetary basis financial report) is prepared in

accordance with statutory and regulatory requirements and is used for reporting on the execution of the State's budget. The accounting records of state agencies are maintained on the budgetary basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the budgetary basis financial report is prepared, adjustments are made to prepare the GAAP basis financial statements.

The accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual (Budgetary Basis) is compiled on the budgetary basis. This statement is reconciled to the general purpose financial statements prepared in accordance with generally accepted accounting principles as shown below. The primary differences between the budgetary basis accounting practices and generally accepted accounting principles are as follows:

Encumbrances

Encumbrances--goods and services that are ordered but not received by the end of the year--are recorded as expenditures on the budgetary basis. On the GAAP basis, they are reported as a reservation of fund balance, reduced to reflect anticipated reimbursements.

Liability for the Medi-Cal Program

Medi-Cal (California Medical Assistance Program) expenditures are, by law, accounted for on a cash basis. They are reported on the accrual basis in accordance with generally accepted accounting principles.

Advances and Loans Receivable

Loans made to other funds or to other governments are recorded as expenditures on the budgetary basis. However, in accordance with generally accepted accounting principles, these loans are recorded as assets.

Tax Rebate, Tax Overpayments, and Advance Collections

On the budgetary basis, the rebate of tax revenues collected in excess of the State's appropriations limit was recorded as operating transfers out in fiscal year 1987-88. For GAAP purposes, the transfers out were eliminated since the tax rebate was already recognized as a reduction of revenue in the prior fiscal year.

Tax overpayments and advance collections are recorded as revenue on the budgetary basis. However, in accordance with generally accepted accounting principles, these amounts are accrued as liabilities.

Restatement of Fund Balance

The beginning fund balance of the State's General Fund on the budgetary basis is adjusted to reflect the difference between the net expenditures and revenues that were accrued the previous June 30 and the amount of actual revenues and net expenditures that were subsequently realized. The beginning fund balance on the GAAP basis is not affected by these adjustments.

Other

Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with generally accepted accounting principles. These adjustments relate to liabilities for lawsuits and compensated absences. A liability for claims arising from lawsuits, \$45 million, is not accrued on the budgetary basis because no money had been appropriated as of June 30, 1988. As discussed in Note 12, the compensated absence liability, \$81 million, for earned vacation of faculty of the California State University and of the special schools of the State Department of Education, is not accrued on the budgetary basis. These liabilities are accrued in the State's General Fund in accordance with generally accepted accounting principles.

STATE OF CALIFORNIA
GENERAL FUND
RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 1988
(IN THOUSANDS)

		Adjustments to the Budgetary Basis				
		Encumbrances	Liability for the Medi-Cal Program	Advances and Loans Receivable	Tax Rebate, Tax Overpayments, and Advance Collections	Restatement of Fund Balance
Budgetary Basis						Other
ASSETS						GAAP Basis
Cash and pooled investments	\$ 105,471					\$ 105,471
Receivables (net)	88,558					88,558
Due from other funds	1,423,389					1,423,522
Due from other governments	32,776					32,776
Prepaid expenses	129,573					129,573
Other assets	911					911
Advances and loans receivable	7,000			\$211,528		211,528
Total Assets	<u>\$ 1,787,678</u>			<u>\$211,528</u>		<u>\$ (6,867)</u>
						<u>\$ 1,992,339</u>
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts payable	\$ 636,076	\$(241,787)	\$ 549,676			\$ (78,918)
Due to other funds	628,586	(51,513)				75,509
Due to other governments	457,636	(90,436)				41,794
Tax overpayments					\$ 206,931	
Deposits	831					831
Compensated absences payable						80,729
Advance collections	32,609				219,619	252,228
Interest payable	91,629					91,629
Other liabilities	23,170					23,170
Total Liabilities	<u>1,870,537</u>	<u>(383,736)</u>	<u>549,676</u>		<u>426,550</u>	<u>119,114</u>
						<u>2,582,141</u>
Fund Equity						
Fund balances						
Reserved for encumbrances		383,736		211,528		383,736
Reserved for advances and loans						211,528
Reserved for continuing appropriations						
Reserved for other specific purposes	259,644					220,338
Unreserved						39,306
Undesignated (deficit)	<u>(342,503)</u>		<u>(549,676)</u>		<u>(426,550)</u>	<u>(1,444,710)</u>
Total Fund Equity (Deficit)	<u>(82,859)</u>	<u>383,736</u>	<u>(549,676)</u>	<u>211,528</u>	<u>(426,550)</u>	<u>(589,802)</u>
Total Liabilities and Fund Equity	<u>\$ 1,787,678</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$211,528</u>	<u>\$ 0</u>	<u>\$ (6,867)</u>
						<u>\$ 1,992,339</u>

REVENUES

Taxes	\$31,140,700					
Licenses and permits	150,979				\$ 48,033	\$30,997,884
Natural resources	101,926					150,979
Charges for services	76,773				36,348	101,926
Fees	306,344					113,121
Penalties	6,252				2,755	306,344
Interest	440,990					9,007
Other	131,464				(30,071)	444,751
						100,151
Total Revenues	32,355,428		(77,729)	(113,120)	57,065	32,224,163

EXPENDITURES

Current						
General government	1,070,832		(1,674)	(18,420)	36,413	1,074,177
Education	17,503,309		63,349	(65,956)	6,846	17,474,851
Health and welfare	10,353,272			14,803	(51,179)	10,251,009
Resources	461,705	\$ (43,805)		(2,601)	2,000	445,696
State and consumer services	234,639		(12,028)	(1,912)		218,703
Business and transportation	64,200		10,997	(362)		72,760
Correctional programs	1,720,466		(1,125)	(10,881)		1,720,414
Property tax relief	1,012,074			(551)		1,011,781
Capital outlay	902					902
Debt service						
Principal retirement	276,840		355		1,770	278,610
Interest and fiscal charges	398,967				408	399,730
Total Expenditures	33,097,206	(43,805)	59,874	(85,880)	(3,742)	32,948,633

OTHER FINANCING SOURCES (Uses)

Operating transfers in	223,661		(40,486)		(24,235)	158,940
Operating transfers out	(1,336,603)		15,407		(362)	(225,558)
Other additions	35,128				(35,128)	
Total Other Financing Sources (Uses)	(1,077,814)		(25,079)		(59,725)	(66,618)
Expenditures and Other Uses Over Revenues and Other Sources	(1,819,592)	43,805	(82,434)	(27,240)	1,082	(791,088)
Fund Balance July 1, 1987, as restated	1,736,733	(593,481)	293,962	27,240	(127,063)	201,286
Fund Balance (Deficit), June 30, 1988	\$ (82,859)	\$ (549,676)	\$ 211,528	\$ 0	\$ (125,981)	\$ (589,802)

C. Special Revenue Fund Reconciliation of Budgetary Basis With GAAP Basis

The primary differences between the budgetary basis accounting practices and generally accepted accounting principles for special revenue funds are as follows:

Encumbrances

Encumbrances--goods and services that are ordered but not received by the end of the year--are recorded as expenditures on the budgetary basis. On the GAAP basis, they are reported as a reservation of fund balance, reduced to reflect anticipated reimbursements.

Advances and Loans Receivable

Loans made to other funds or to other governments are recorded as expenditures on the budgetary basis. However, in accordance with generally accepted accounting principles, these loans are recorded as assets.

Other

Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with generally accepted accounting principles. These other items include amounts designated for future highway construction, deposits for condemnation proceedings, a liability for claims arising from lawsuits, and various miscellaneous items.

STATE OF CALIFORNIA
SPECIAL REVENUE FUNDS
RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS
AS OF JUNE 30, 1988
(IN THOUSANDS)

Fund Balances, June 30, 1988 - Budgetary Basis	\$ 157,270
Encumbrances	1,293,119
Advances or loans to other funds	637,443
Other	<u>3,509</u>
Fund Balances, June 30, 1988 - GAAP Basis	<u>\$2,091,341</u>

4. Accounting Change
Reclassification of Fund Balances

In prior fiscal years, the balances remaining in continuing appropriations were classified as fund balance designated for subsequent years' expenditures. The balances remaining in the continuing appropriations at June 30, 1988, have been reclassified as fund balance reserved for continuing appropriations to better reflect the legal nature of continuing appropriations. Continuing appropriations are legally segregated for a specific future use.

5. Restatement of Internal Service Fund Retained Earnings at July 1, 1987

Retained earnings of \$18.5 million were reclassified as contributed capital, correcting a prior year classification error in an internal service fund. As a result, the retained earnings balance at July 1, 1987, decreased by \$18.5 million.

6. Special Revenue Fund and Capital Project Fund Temporary Fund Equity Deficits at June 30, 1988 (GAAP Basis)

Although the special revenue fund type had a positive fund equity, 10 of the 17 special revenue funds that receive bond proceeds had deficits at June 30, 1988. Additionally, three of the six capital projects funds that receive bond proceeds had deficits at June 30, 1988. These deficits resulted from the change in the way the State has financed certain projects since the passage of the Federal Tax Reform Act of 1986. The Federal Tax Reform Act of 1986 requires the State to pay the federal government any profit that it earns from investing tax-exempt bond proceeds at a higher

interest rate than that which it pays on the bond issue. Before the passage of the Federal Tax Reform Act of 1986, the State sold tax-exempt bonds and invested the proceeds until the proceeds were needed to finance a particular project. The bond proceeds were reported as a financing source in the fund receiving the proceeds, which increased its fund balance, while the liability for the bonds issued was reported in the General Long-Term Obligations Account Group. Since the passage of the Federal Tax Reform Act of 1986, before issuing bonds, the State temporarily borrows from its own pooled investments to pay project costs. These loans are recorded as a liability of the fund rather than in the General Long-Term Obligations Account Group. Because both the liability and the cash proceeds from the loan are reported in the fund, any expenditure from the fund creates a temporary deficit. The deficit will be eliminated when the State later issues the bonds and uses the proceeds to repay the loan.

At June 30, 1988, the deficits in the ten special revenue funds totaled \$964 million. Each of these funds had bonds authorized but unissued that exceeded its deficit. In total, these funds had \$3.318 billion in authorized but unissued bonds. At June 30, 1988, the deficits in the three capital projects funds totaled \$261 million. Each of these funds had bonds authorized but unissued that exceeded its deficit. In total, these funds had \$900 million in authorized but unissued bonds.

7. Pooled Investment Loans

As discussed in Note 6, the State made loans to various state bond programs from its pooled investments during fiscal year 1987-88. The following schedule shows the loan balances by fund type at June 30, 1988 (in thousands):

<u>Fund Type</u>	<u>Outstanding Loans at June 30, 1988</u>	<u>Amount Disbursed</u>	<u>Available Balance</u>
Special revenue	\$ 852,194	\$487,495	\$364,699
Capital projects	500,991	221,908	279,083
Enterprise	<u>298,278</u>	<u>137,575</u>	<u>160,703</u>
Total	<u>\$1,651,463</u>	<u>\$846,978</u>	<u>\$804,485</u>

8. Cash and Pooled Investments, Investments, and Obligations Under Reverse Repurchase Agreements

The state treasurer and the treasurer of the Regents of the University of California each administer a pooled investment program. These programs enable the treasurers to combine available cash from all funds within their respective systems and to invest cash that exceeds current needs. The enterprise funds, trust and agency funds, and University of California funds also have separate investments.

The state treasurer has agreements with certain banks to maintain cash on deposit that does not earn interest income for the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts. At June 30, 1988, the agreements provided that the State maintain approximately \$88 million on deposit to compensate the banks for services and \$194 million to compensate the banks for uncleared checks.

As of June 30, 1988, the average remaining life of the securities in the pooled investment program administered by the state treasurer was approximately 14 months. The average remaining life of the securities in the pooled investment program administered by the treasurer of the Regents of the University of California was approximately 17 months. These securities are reported at cost.

The following sections, A through C, relate to the activities of the State, excluding the University of California. Section D presents the investments of the University of California.

A. Deposits

All demand and time deposits, which total \$547 million, that were held by financial institutions at year end were insured by federal depository insurance or by collateral held by the State or by an agent of the State in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be held by the state treasurer.

As of June 30, 1988, the State had amounts on deposit with fiscal agents totaling \$14 million. These deposits, which were for principal and interest payments due to bond and note holders, are required by federal banking regulations to be collateralized.

B. Investments

State statutes, bond resolutions, and investment policy resolutions allow the State to invest in United States government securities, Canadian government securities, state and municipal securities, certificates of deposit, bankers'

acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments.

All investments reported as of June 30, 1988, were insured or registered in the State's name or held by the State or an agent of the State in the State's name except for \$649 million in the enterprise funds. These enterprise funds' investments included uninsured and unregistered investments held by an agent of the State of which \$410 million are in the State's name and \$239 million are not in the State's name. The types of investments reported at year end are representative of the types of investments made during the fiscal year. Furthermore, the credit risk associated with the investments reported at year end is representative of the credit risk associated with investments made during the fiscal year.

The following table presents the carrying value and market value of the investments that were reported by the State on June 30, 1988.

INVESTMENTS
AS OF JUNE 30, 1988
(IN THOUSANDS)

	Pooled Investments		Separately Invested Funds			
	Carrying Value	Market Value	Enterprise Funds		Trust and Agency Funds	
			Carrying Value	Market Value	Carrying Value	Market Value
U.S. government securities and						
U.S. government agency securities	\$ 2,812,210	\$ 2,930,322	\$1,902,219	\$2,035,279	\$ 8,180,954	\$ 8,509,529
Canadian government securities			31,631	35,235	155,810	152,514
State and municipal securities			85,243	85,125	17,271	16,610
Certificates of deposit	4,100,323	4,100,375	21,095	21,095	1,024,310	1,024,310
Bankers' acceptances	1,957,780	1,984,549	19,626	19,626	180,449	180,449
Commercial paper	1,640,665	1,640,665	36,727	36,727	1,119,589	1,119,589
Corporate bonds	2,808,573	2,817,011	1,603,059	1,552,526	6,924,213	6,957,351
Mortgage loans and notes					12,282,320	12,609,262
Other debt securities					4,295,309	4,220,635
Repurchase agreements	365,000	365,000	350,216	350,216	145,000	145,000
Equity securities			2,039	2,435	25,785,774	31,483,249
Real estate					2,541,592	2,424,188
Investment agreements			856,935	856,935	168,314	185,044
Mutual funds			1,316	1,316	111,517	94,787
Other investments			50,456	50,456	1,154,133	1,154,133
Total Investments	<u>\$13,684,551</u>	<u>\$13,837,922</u>	<u>\$4,960,562</u>	<u>\$5,046,971</u>	<u>\$64,086,555</u>	<u>\$70,276,650</u>

The market values of the investments in certain certificates of deposit, commercial paper, and repurchase agreements approximate their carrying values because of the short-term nature of those securities.

Included in the investments of the enterprise funds are the investments of the State Compensation Insurance Fund as of and for the year ended December 31, 1987. The State Compensation Insurance Fund represents 55 percent and 53 percent, respectively, of the carrying value and market value of the enterprise funds investments.

C. Reverse Repurchase Agreements

The California Government Code allows the State to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract amount of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State or provide securities or cash of equal value, the State will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. However, at June 30, 1988, the market value plus accrued interest and the carrying value of the State's investments in reverse repurchase agreements were approximately \$61 million and \$59 million, respectively. Since, at June 30, 1988, the cash received plus accrued interest totaled \$63 million for the securities sold, there was no credit risk to the State.

D. Investments of the University of California

As discussed in Note 2, the financial statements of the University of California have been prepared in conformity with generally accepted accounting principles as prescribed by the National Association of College and University Business Officers and by the American Institute of Certified Public Accountants. The investments of the endowment and similar funds and the investments of the pooled investment program are reported at cost. The investments of the University of California Retirement Funds are reported at market value. As of June 30, 1988, the pooled and temporary investments had a carrying value of \$2.2 billion, which approximates market value. The following schedule presents the investments other than those of the pooled investment program as of June 30, 1988 (in thousands):

	<u>Endowment and Similar Funds</u>		<u>University of California Retirement System Funds</u>	
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>
Common stocks	\$375,984	\$727,400	\$4,291,099	\$ 7,231,979
Bonds	97,661	96,939	1,149,578	1,206,656
Bond substitutes	63,579	114,458	661,852	987,220
Mortgage loans and notes	5,682	5,264	3,236	2,880
Miscellaneous investments	3,114	3,114	641,886	641,886
Real estate	<u>7,498</u>			
Total	<u>\$553,518</u>	<u>\$947,175</u>	<u>\$6,747,651</u>	<u>\$10,070,621</u>

9. Restricted Assets

The following schedule presents a summary of the legal restrictions on assets of the enterprise funds and the purposes for which the assets were restricted as of June 30, 1988 (in thousands):

<u>Purpose</u>	<u>Cash and Pooled Investments</u>	<u>Investments</u>	<u>Due From Other Funds</u>
Debt service	\$ 901,415	\$193,184	\$ 1,306
Construction	342,563		7,859
Equipment repair and replacement	26,895		
Operations	3,926		
Deposits	<u>2,042</u>		<u>1,028</u>
Total Restricted Assets	<u>\$1,276,841</u>	<u>\$193,184</u>	<u>\$10,193</u>

10. Deferred Charges

The deferred charges account in the enterprise fund type represents operating and maintenance costs and unrecovered capital costs that will be recognized as expenses over the remaining life of long-term state water project contracts because these costs are billable in future years. In addition, the account includes imputed interest earnings on unrecovered capital and operating

costs that are recorded as deferred charges until they are billed in future years under the terms of the state water project contracts.

11. Fixed Assets

The following schedule presents a summary of the fixed assets of the enterprise funds, internal service funds, pension trust funds, and the University of California as of June 30, 1988 (in thousands):

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>	<u>University of California</u>
State water projects	\$3,046,729			
Toll facilities	688,846			
Other land, improvements, buildings, and equipment	552,808	\$279,663	\$6,598	\$6,069,098
Construction in progress	<u>905,184</u>	<u> </u>	<u> </u>	<u>327,482</u>
Total Fixed Assets	5,193,567	279,663	6,598	6,396,580
Less accumulated depreciation	<u>677,128</u>	<u>110,534</u>	<u> </u>	<u> </u>
Net Fixed Assets	<u>\$4,516,439</u>	<u>\$169,129</u>	<u>\$6,598</u>	<u>\$6,396,580</u>

12. Compensated Absences Payable

As of June 30, 1988, the State's estimated liability for compensated absences related to accumulated vacation-leave amounted to approximately \$490 million. Of this amount, \$387 million is reported in the General Long-Term Obligations Account Group, \$22 million is reported in the proprietary fund types, and \$81 million for earned vacation compensation of academic-year faculty of the California State University and of the special schools of the State Department of Education is reported as a current liability in the State's General Fund. Employees are not paid for accumulated sick-leave balances. However, unused sick-leave balances convert to service credits upon retirement.

13. General Obligation Bonds

The State Constitution permits the State to issue general obligation bonds for specific purposes and in such amounts as approved by two-thirds of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the State's General Fund. Under the State Constitution, the General Fund is used, first, to support the public school system and public institutions of higher education. The General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds reimburse the General Fund for the debt service provided on their behalf.

A. Changes in Bond Indebtedness

The following schedule summarizes the changes in general obligation bond debt for the year ended June 30, 1988 (in thousands):

	<u>Balance July 1, 1987</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1988</u>
General Long-Term Obligations	\$3,366,735	\$160,800	\$278,610	\$3,248,925
Enterprise Funds	<u>4,661,815</u>	<u>340,000</u>	<u>243,625</u>	<u>4,758,190</u>
Total General Obligation Bonds	<u>\$8,028,550</u>	<u>\$500,800</u>	<u>\$522,235</u>	<u>\$8,007,115</u>

General obligation bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds in the accompanying financial statements. However, the State's General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

B. Bonds Outstanding and Bonds Authorized but Unissued

The following schedule shows general obligation bonds outstanding and bonds authorized but unissued as of June 30, 1988 (in thousands):

	<u>Outstanding</u>	<u>Authorized But Unissued</u>
<u>General Long-Term Obligations</u>		
New Prison Construction	\$ 725,500	\$ 445,000
School Building Lease-Purchase	616,740	1,800,000
County Jail Capital Expenditure	345,800	150,000
Clean Water and Water Conservation	232,330	45,000
Clean Water	222,450	330,000
State Park Lands	166,550	45,000
Safe Drinking Water	147,095	170,000
State, Urban, and Coastal Park	146,215	25,000
State Beach, Park, Recreational and Historical Facilities	140,130	
State Construction	118,750	
Park and Recreational Facilities	84,250	275,000
Health Science Facilities	66,200	
Community College Construction	55,250	
Senior Center	45,000	
Higher Education Construction	44,210	
Lake Tahoe Acquisitions	26,500	55,000
Fish and Wildlife Habitat Enhancement	26,000	55,000
Recreation and Fish and Wildlife Enhancement	18,000	
Harbor Development	11,255	
Junior College Construction	9,900	
Water Conservation and Quality	800	149,200
Wildlife, Coastal, and Park Land		776,000
County Correctional Facility		495,000
Higher Education Facilities		400,000
Earthquake Safety and Housing Rehabilitation		150,000
Community Park Lands		100,000
	<hr/>	<hr/>
Total General Long-Term Obligations	<u>3,248,925</u>	<u>5,465,200</u>
<u>Enterprise Funds</u>		
California Veterans	3,020,575	1,020,000
Water Resource Development	1,338,835	180,000
State School Building Aid	346,030	40,000
Hazardous Substance Cleanup	45,000	50,000
First-Time Home Buyers	7,750	185,000
	<hr/>	<hr/>
Total Enterprise Funds	<u>4,758,190</u>	<u>1,475,000</u>
Total General Obligation Bonds	<u>\$8,007,115</u>	<u>\$6,940,200</u>

C. Debt Service Requirements

The following schedule shows the debt service requirements for general obligation bonds, including interest of \$5.7 billion, as of June 30, 1988 (in thousands):

<u>Year Ending June 30</u>	<u>General Long-Term Obligations</u>	<u>Enterprise Funds</u>
1989	\$ 505,340	\$ 552,463
1990	477,889	524,341
1991	458,584	506,440
1992	428,862	478,672
1993	390,005	453,804
Thereafter	<u>2,880,062</u>	<u>6,014,435</u>
Total	<u>\$5,140,742</u>	<u>\$8,530,155</u>

14. Revenue Bonds

With approval in advance from the Legislature, certain state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the earnings of the respective enterprise funds of the agencies listed in Section B of this footnote or from resources of certain plant funds or loan funds of the University of California. The State's General Fund has no legal liability for payment of principal and interest on revenue bonds.

The Department of Water Resources, the California State University, the California Transportation Commission, the State Public Works Board, and the University of California issued revenue bonds to acquire or construct state facilities. The California Housing Finance Agency, the Department of Veterans Affairs, the California National Guard, and the California Student Loan Authority issued revenue bonds to allow the State to make loans to finance housing development, to finance the acquisition of farms and homes by California veterans and National Guard members, and to purchase federally insured student loans from lending institutions. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals or entities.

A. Changes in Bond Indebtedness

The following schedule summarizes the changes in revenue bond debt for the year ended June 30, 1988 (in thousands):

	Balance July 1, 1987	Additions	Deductions	Balance June 30, 1988
Enterprise Funds	\$6,355,838	\$747,363	\$459,142	\$6,644,059
University of California	<u>792,430</u>	<u>112,315</u>	<u>27,657</u>	<u>877,088</u>
Total Revenue Bonds	<u>\$7,148,268</u>	<u>\$859,678</u>	<u>\$486,799</u>	<u>\$7,521,147</u>

B. Revenue Bonds Outstanding

The following schedule shows revenue bonds outstanding as of June 30, 1988 (in thousands):

	<u>Outstanding</u>
<u>Enterprise Funds</u>	
California Housing Finance Agency	\$2,698,542
Department of Water Resources	1,336,050
Department of Veterans Affairs	1,093,005
State Public Works Board	1,104,519
California State University	208,993
California Student Loan Authority	91,965
California Transportation Commission	91,344
California National Guard	<u>19,641</u>
Total Enterprise Funds	6,644,059
<u>University of California</u>	
Regents of the University of California	<u>877,088</u>
Total Revenue Bonds	<u>\$7,521,147</u>

Outstanding revenue bonds totaling \$49.3 million for the California School Financing Authority (authority) are not included in the accompanying financial statements. These bonds constitute limited obligations of the authority.

C. Debt Service Requirements

The following schedule shows the debt service requirements for revenue bonds, including interest of \$11.1 billion, as of June 30, 1988 (in thousands):

<u>Year Ending June 30</u>	<u>Enterprise Funds</u>	<u>University of California</u>
1989	\$ 627,256	\$ 56,365
1990	664,520	58,771
1991	664,257	60,865
1992	716,137	60,714
1993	651,276	61,283
Thereafter	<u>13,221,820</u>	<u>1,757,296</u>
Total	<u>\$16,545,266</u>	<u>\$2,055,294</u>

D. Early Extinguishments of Debt

During the year ended June 30, 1988, the California Transportation Commission (commission) issued approximately \$50 million of 1987 San Francisco Bay Toll Bridge Revenue Refunding Bonds--Series A and used \$49 million of the proceeds, along with an additional \$5 million of 1981 Series A and 1982 Series B Retirement Interest and Revenue Fund monies, to satisfy a debt of approximately \$46 million for the 1981 Series A bonds and 1982 Series B bonds. The commission used the \$54 million to purchase United States government securities and placed the securities in irrevocable escrow with the State Treasurer's Office. The investment and interest will be sufficient to redeem the 1981 Series A and 1982 Series B bonds as they become due.

The commission reduced the Toll Revenue Fund's aggregate debt service payments over the next 14 years by more than \$2 million and obtained an economic gain (difference between the present values of the new and old debt service payments) of approximately \$1 million.

Since the escrow arrangements effectively release the California Transportation Commission from its obligations for the \$46 million, the liability for the bonds is not included on the combined balance sheet, nor are the related investments.

During the year ended June 30, 1986, the Department of Water Resources issued \$206.7 million of Central Valley Project Revenue Bonds, Series H, and used \$183.5 million of the proceeds to satisfy a debt of \$163.7 million for Series C and D bonds. The department invested the \$183.5 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer's Office. The investment and interest will be sufficient to pay all principal and interest on the Series C and D bonds as they become due and to redeem such bonds on December 1, 1992. As of June 30, 1988, \$109 million of the Series C and D bonds remained outstanding.

During the year ended June 30, 1985, the Department of Water Resources issued \$239.5 million of Central Valley Project Facilities Revenue Bonds, Series G, and used \$236.9 million of the proceeds to satisfy a debt of \$200 million for Series B revenue bonds. The department invested the \$236.9 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer's Office. The investment and interest will be sufficient to pay all principal and interest on the Series B revenue bonds as they become due and to redeem such bonds on December 1, 1992. As of June 30, 1988, \$195.9 million of the Series B bonds remained outstanding.

Since the escrow arrangements effectively release the Department of Water Resources from its obligations for the remaining \$109 million of the Series C and D bonds and the remaining \$195.9 million of the Series B bonds, the liability for the bonds is not included on the combined balance sheet, nor are the related investments.

During the year ended June 30, 1988, the University of California sold \$40 million in certificates of participation and put the proceeds in trust to legally extinguish the debt of old certificates of participation.

15. No-Commitment Debt

The Legislature created various authorities to provide private entities with a low-cost source of capital financing for constructing facilities deemed to be in the public interest. This debt is secured solely by the credit of the private entities and is administered by trustees independent of the State. The State has no obligation for this debt. Accordingly, these bonds are not reported in the accompanying financial statements.

The following schedule shows no-commitment debt outstanding as of June 30, 1988 (in thousands):

	<u>Outstanding</u>
Health Facilities	\$3,913,469
Pollution Control	3,138,689
Educational Facilities	721,878
Alternate Energy Source	<u>113,662</u>
Total No-Commitment Debt	<u>\$7,887,698</u>

16. Commitments

A. Leases

The aggregate amount of lease commitments for facilities and equipment, excluding those of the University of California, in effect as of June 30, 1988, is approximately \$3.1 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, and they contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

The State has also entered into some lease-purchase agreements to acquire office buildings and electronic data processing and other equipment. The acquisition or development of the office buildings is financed by joint powers authorities, nonprofit corporations, and private corporations that then lease the facilities to the State. Upon expiration of these leases, title to the facilities and equipment will pass to the State.

Certain state educational and correctional institutions have entered into lease-purchase agreements with the State Public Works Board amounting to a present value of net minimum lease payments of \$950 million. These lease payments will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for these institutions. Upon expiration of these leases, jurisdiction of the educational and correctional facilities will pass from the State Public Works Board to the state educational and correctional institutions.

The minimum lease commitments are summarized below (in thousands):

<u>Year Ending June 30</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
1989	\$145,353	\$ 94,668	\$ 240,021
1990	114,509	98,519	213,028
1991	89,508	126,546	216,054
1992	67,372	141,548	208,920
1993	54,833	141,449	196,282
Thereafter	<u>184,704</u>	<u>1,887,359</u>	<u>2,072,063</u>
Total Minimum Lease Payments	<u>\$656,279</u>	<u>2,490,089</u>	<u>\$3,146,368</u>
Less amount representing interest		<u>1,160,829</u>	
Present Value of Net Minimum Lease Payments		<u>\$1,329,260</u>	

Lease expenditures for the year ended June 30, 1988, amounted to approximately \$280 million.

University of California rental expenditures for the years ended June 30, 1988 and 1987, totaled \$45 million and \$37 million, respectively. Minimum payments required under capital and noncancelable operating leases in fiscal year 1988-89 are \$16.5 million and decrease in amount thereafter.

B. Loan and Construction

As of June 30, 1988, loan programs for housing, school building aid, harbors and waterways, supply systems for domestic water, energy conservation, and economic development had loan commitments totaling approximately \$690 million. These commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued. The State had commitments for approximately \$301 million for the construction of water projects and portable classrooms, and the construction and rehabilitation of toll bridge facilities. Construction projects of the University of California, totaling \$671 million, had been authorized as of June 30, 1988.

C. Encumbrances

At June 30, 1988, encumbrances of the special revenue funds totaled \$1.3 billion. This amount does not include commitments of \$1.4 billion for construction projects for various highways. The commitments for highway projects in the amount of \$1.4 billion are excluded because the future expenditures related to these commitments are expected to be reimbursed primarily from proceeds of approved federal grants. The ultimate liability will not accrue to the State.

17. Major Tax Revenues

Tax revenues for the year ended June 30, 1988, are as follows (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>
Sales and use	\$11,630,531	\$658,163	
Personal income	13,948,091		
Bank and corporation	4,680,633		
Unemployment insurance			\$2,041,221
Disability insurance			1,851,177
Other	<u>738,629</u>	<u>128,915</u>	<u>17,712</u>
Total	<u>\$30,997,884</u>	<u>\$787,078</u>	<u>\$3,910,110</u>

18. Pension Trusts

The State administers five defined benefit contributory retirement plans: the Public Employees' Retirement System, the State Teachers' Retirement System, the Judges' Retirement System, the Legislators' Retirement System, and the University of California Retirement System. The University of California Retirement System is reported in the University of California fund type. The University of California follows the reporting requirements of the National Association of College and University Business Officers and the American Institute of Certified Public Accountants. The other pension funds are included in the fiduciary fund type and are reported in accordance with the requirements of the Governmental Accounting Standards Board. Additional information for each retirement system can be found in their separately issued financial reports.

A. Public Employees' Retirement System

Plan Description

The Public Employees' Retirement System (PERS) is an agent multiple-employer public employees' retirement system. It is administered by the Board of Administration (board) of the PERS. The board also administers other retirement systems and programs. The PERS had approximately 595,000 active and inactive members at June 30, 1988, excluding current benefit recipients of approximately 231,000. The membership includes employees of the State of California, nonteaching school employees, and employees of California public agencies. These employees are covered under 1,315 contracts with the PERS. The payroll of member agencies covered by the PERS was approximately \$13.6 billion in fiscal year 1987-88. At June 30, 1988, the PERS had approximately 207,000 state members. The State's payroll covered by the PERS was approximately \$5.6 billion out of a total payroll of approximately \$8.4 billion, which includes the payroll of the University of California of approximately \$2.2 billion.

All employees of member agencies who work on a halftime basis or more are eligible to participate in the PERS. The PERS administers several different retirement plans, each providing a monthly allowance based on age, years of credited service, and highest average compensation over an established period of one to three years. Vesting occurs after five or ten years, depending on the plan. All plans provide death and disability benefits. The benefit provisions for state and school employees are established by statute. The benefits for public agencies are established by contract with the PERS in accordance with the provisions of the Public Employees' Retirement Law.

Employees of the State of California who are covered by the PERS are classified into the following groups: safety members, which include employees in law enforcement and fire prevention and suppression; industrial members, which include employees of the youth and adult correctional facilities who are not safety members; and miscellaneous members, which include all other members and represent the majority of state employees. The State offers certain groups of employees in the industrial and miscellaneous categories two retirement options: a first tier and a second tier option. In the first tier, employees contribute a percentage of their payroll to the PERS. In the second tier, employees elect not to contribute to the PERS in exchange for reduced benefits.

Upon separation from the PERS, members can elect to have their accumulated contributions refunded with interest

credited through the date of refund. The annual rate of interest credited to members' accounts cannot be less than the actuarial interest assumption.

State employees become vested after five years if they are covered by the first tier plan and after ten years if they are covered by the second tier plan. The retirement benefits of state employees vary according to the plan under which they are covered. The benefits of the largest group, miscellaneous members in the first tier plan, are based on a formula that, at the normal retirement age of 60, provides benefits equal to 2 percent of the highest compensation over three consecutive years multiplied by the years of service. Early retirement options at reduced benefits are also available.

All employees of member agencies contribute to the PERS except for the state employees in the second tier plan. The contribution rates vary between the plan and the employer. The state employees' contribution rates range from 5 percent of the monthly salary over \$513 for industrial and miscellaneous members in the first tier plan who are also covered by social security up to 8 percent of the monthly salary over \$863 for certain safety members who are not covered by social security.

Employers are required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS's actuaries and actuarial consultants and adopted by the board.

Investment Matters

Statutes authorize the PERS to invest in stocks, bonds, mortgages, real estate, and other investments. Boston Safe Deposit and Trust Company is the master custodian for the majority of the investments.

Equity securities are reported at cost, subject to adjustment for market declines that are other than temporary. Fixed-income securities are reported at amortized cost. The market value, where disclosed, is based on published market prices and quotations from major investment brokers.

Funding Status and Progress

The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the

funding status of the PERS on a going-concern basis, assess the progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the PERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1987. Significant assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5 percent a year compounded annually; (b) projected salary increases of 5 percent a year compounded annually, attributable to inflation; (c) additional salary increases of 0.75 percent a year attributable to across-the-board salary increases and 1.25 percent a year attributable to merit raises; and (d) post-retirement benefit increases based on the contracts with the member agencies.

The following schedule shows the total unfunded pension benefit obligation of the PERS and the State's portion of the total on June 30, 1987 (in thousands):

	<u>Total PERS</u>	<u>State's Portion</u>
Pension benefit obligation to:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$17,863,439	\$ 8,610,910
Current employees:		
Accumulated employee contributions, including allocated investment earnings	7,293,472	2,571,698
Employer-financed vested	15,416,919	8,213,454
Employer-financed nonvested	<u>763,488</u>	<u>355,777</u>
Total pension benefit obligation	41,337,318	19,751,839
Net assets available for benefits (market value \$42,204,316 and \$18,445,384, respectively)	<u>33,709,518</u>	<u>14,732,735</u>
Unfunded pension benefit obligation	<u>\$ 7,627,800</u>	<u>\$ 5,019,104</u>

Contribution Requirements

The PERS uses the entry age normal actuarial cost method, which is a projected-benefit cost method. The method takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. The PERS uses a modification of the entry age cost method in which the employer's total normal cost is expressed as a level percentage of payroll. The PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liability. The amortization period of the unfunded actuarial liability varies by agency but is no longer than 30 years.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

The required contributions consist of a normal cost of 14.936 percent of covered payroll and an amortization of unfunded liabilities of 3.357 percent of covered payroll. The following schedule shows the actual contributions during fiscal year 1987-88 (amounts in thousands):

	<u>Amount</u>	<u>Percentage of Payroll</u>
Employer	\$1,783,884	13.156
Members	<u>817,707</u>	<u>6.030</u>
Total	<u>\$2,601,591</u>	<u>19.186</u>

The rates at which the State of California was required to contribute to the PERS during fiscal year 1987-88 were as follows:

	<u>Normal Cost</u>	<u>Unfunded Liability</u>	<u>Total Rate</u>
Miscellaneous members:			
First tier	8.926%	6.276%	15.202%
Second tier	8.762	6.276	15.038
Industrial	13.637	1.695	15.332
Highway patrol	19.087	1.772	20.859
Peace officers/firefighters	13.392	3.779	17.171
Other safety members	17.675	1.554	19.229

The actual contributions, also expressed as a percentage of payroll, of the State and the PERS's members for the year ended June 30, 1988, were as follows (amounts in thousands):

	<u>Amount</u>	<u>Percentage of Covered Payroll</u>
Miscellaneous:		
Employer	\$ 664,981	15.185
Members	168,727	3.853
Industrial:		
Employer	22,832	15.332
Members	6,063	4.071
Highway Patrol:		
Employer	44,161	20.859
Members	12,435	5.874
Peace officers/ firefighters:		
Employer	136,458	17.172
Members	57,138	7.190
Other safety:		
Employer	22,346	19.229
Members	<u>6,292</u>	5.415
Total Contributions	<u>\$1,141,433</u>	

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three-year trend information of the following is not yet available: (a) net assets available for benefits expressed as percentages of the pension obligation; (b) unfunded pension benefit obligation expressed as percentages of annual covered payroll; and (c) employer contributions expressed as percentages of annual covered payroll. Such information will be provided in future years as it becomes available.

B. State Teachers' Retirement System

Plan Description

The State Teachers' Retirement System (STRS) is a cost-sharing multiple-employer retirement system that provides pension benefits to teachers and certain other employees of the California public school system. At June 30, 1988, the STRS had 1,100 contributing employers (school districts). Additionally, the State is a nonemployer contributor to the STRS.

Membership in the pension plan is mandatory for all employees who hold a teaching certificate and who are eligible for membership. The following schedule shows the approximate number of members at June 30, 1988:

Retirees and beneficiaries currently receiving benefits and inactive employees entitled to benefits but not yet receiving them	115,000
Nonvested inactive members	34,000
Current members	
Vested	213,000
Nonvested	<u>70,000</u>
Total	<u>432,000</u>

Members become fully vested in retirement benefits after five years of credited service. In general, the STRS provides defined retirement benefits based on the members' final compensation, age, and length of service. In addition, benefits are provided for disability and for survivors upon the death of eligible members. Final compensation is defined as the average salary earnable for the highest three consecutive years of credited service. Normal retirement age is 60 years, at which time the benefit formula provides benefits equal to 2 percent of final compensation multiplied by the years of service. Early retirement options are also available.

Members are eligible for disability benefits before age 60 after five years of credited service. The disability benefits range up to 90 percent of final compensation. Also available are family benefits if the deceased member had at least one year of credited service.

The members' accumulated contributions and accrued interest are refundable to employees upon separation.

The following is a summary of the sources of contributions:

Members	- 8 percent of applicable member earnings
Employers	- 8.665 percent of applicable member earnings

State of California - Annual contributions of \$144.3 million indexed to increases or decreases in the consumer price index beginning July 1, 1980. In fiscal year 1987-88, the contribution under this requirement was \$242 million.

- Additional annual contributions of \$100 million in 1985-86 that increase by \$20 million each year through 1994-95 when the additional annual contribution will be \$280 million. Beginning in 1994-95 such additional contributions of \$280 million will be indexed to the California Consumer Price Index.
- Under certain provisions of the Education Code, the State is required to make contributions of .415 percent of payroll. Actual appropriations for 1987-88 were \$34.5 million, or .373 percent of payroll.

Investment Matters

The STRS is authorized to invest in obligations of the United States government, the Canadian government, United States corporations with a rating of BBB or above, and private placements. The STRS may also invest in notes collateralized by first mortgages and deeds of trust for real estate located in the United States, common and preferred stocks of corporations domiciled in the United States or Canada, real properties, mutual funds, and units of participation in commingled index funds.

The majority of the securities held in the investment portfolio at June 30, 1988, is in the custody of or controlled by the State Street Bank and Trust Company, the STRS's master custodian.

Debt securities are reported at amortized cost. Mortgage loans are reported at the remaining principal balance less unamortized discounts. Equity securities are reported at cost. Short-term and other investments are reported at cost, which approximates market value. Real estate equity investments consist of commercial real estate and are reported at cost, which approximates net realizable value.

Funding Status

The amount shown below as pension benefit obligation is a standardized disclosure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The amount is the actuarial present value of credited projected benefits and is intended to help users assess the STRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. This measure is independent of the actuarial methods used to calculate the contribution requirements described below.

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1987. Significant actuarial assumptions used in the valuation include (a) consumer price index increases of 5 percent annually; (b) projected salary increases attributable to inflation, merit, and promotion of 6.5 percent annually; (c) a rate of return on the investment of present and future assets of 8.5 percent; (d) post-retirement benefit increases of 2 percent; (e) an expected growth in the size of the teaching force of 0.5 percent per year for the next 40 years; and (f) an expected growth of 7.03 percent in covered payroll.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

At June 30, 1987, the STRS had the following unfunded pension benefit obligation (in thousands):

Pension benefit obligation to:

Retirees and beneficiaries currently receiving benefits	\$11,548,710
Current members	21,471,547
Inactive members	<u>889,429</u>
Total pension benefit obligation	33,909,686
Net assets available for benefits (at amortized cost)	<u>20,594,478</u>
Unfunded pension benefit obligation	<u><u>\$13,315,208</u></u>

Significant changes in actuarial assumptions from the previous valuation in 1985 include a decrease in the long-term rate of return on investments from 8.75 percent to 8.5 percent and a decrease in the long-term rate of salary increases from 7 percent to 6.5 percent. These changes in actuarial assumptions increased the total pension benefit obligation by \$345 million.

Contribution Requirements

The STRS's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. The system also uses the level percentage of payroll method to calculate the amortization of the unfunded liability over 40 years.

In their actuarial valuation as of June 30, 1987, the STRS's independent actuaries determined that the minimum rate of contributions to meet the requirements of the funding policy is 21.26 percent of covered payroll. The total contribution rate currently required by law is 20.22 percent of covered payroll, representing a deficit of 1.04 percent. The annual funding deficit at the previous valuation on July 1, 1985, was 2.49 percent.

Trend Information

The following schedule shows the percentage of net assets available for benefits as a percentage of the pension benefit obligation and the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1987 and 1985. Additional trend information is available in the separately issued STRS's financial report for the year ended June 30, 1988 (amounts in thousands):

	<u>June 30, 1987</u>	<u>June 30, 1985</u>
Net assets available for benefits	\$20,594,478	\$15,005,254
Pension benefit obligation	33,909,686	28,271,320
Percentage funded	61%	53%
Unfunded pension benefit obligation	\$13,315,208	\$13,266,066
Annual covered payroll	8,705,341	7,223,069
Unfunded pension benefit obligation as a percentage of covered payroll	153%	184%

C. Judges' Retirement System

Plan Description

The Judges' Retirement System (JRS) is an agent multiple-employer retirement system. It is administered by the Board of Administration of the PERS, and it operates under the Judges' Retirement Law of the California Government Code. The JRS provides pension benefits to judges of the supreme court, court of appeal, superior courts, and municipal courts. Membership in the pension plan includes all judges of municipal and higher courts of California. As of June 30, 1988, the JRS had 1,423 active and inactive members and 908 retired members and beneficiaries receiving benefits. The covered payroll for fiscal year 1987-88 was approximately \$130 million.

Generally, members become fully vested in retirement benefits after five years of service credit. The JRS provides defined retirement benefits based on the members' length of service and salary rates. In addition, the JRS provides benefits for disability and for survivors upon the death of eligible members. Members are generally eligible for retirement benefits at age 60 with 20 years of service. The JRS is funded on a "pay-as-you-go" basis under which the JRS uses active member contributions to fund current benefit payments to retirees. Members contribute 8 percent of the applicable member compensation. The employers, which are the State and the counties, contribute another 8 percent. The State also has to make other contributions as necessary.

Investment Matters

State law authorizes the JRS to invest in stocks, bonds, mortgages, real estate, and other investments. The JRS maintains cash equivalents with financial institutions. Investments are reported at cost plus accrued interest, which approximate market value.

Funding Status and Progress

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the JRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the JRS.

Significant assumptions used to calculate the pension benefit obligation were an actuarial interest rate of 6 percent per year and expected salary increases of 5.75 percent, which includes an expected inflation rate of 5 percent.

The following schedule shows the total unfunded pension benefit obligation applicable to the JRS at June 30, 1987 (in thousands):

Pension benefit obligation to:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 586,224
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Current employees:

Accumulated employee contributions including allocated investment income	57,303
Employer-financed vested	640,754
Employer-financed nonvested	<u>195,029</u>

Total pension benefit obligation	1,479,310
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Net assets available for benefits, at cost	<u>3,615</u>
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Unfunded pension benefit obligation	<u><u>\$1,475,695</u></u>
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Contribution Requirements

The contribution requirements of the JRS are not actuarially determined. Contribution requirements are established by law. The State was required to contribute a total of \$7.8 million. The State actually contributed a total of \$9.0 million.

The last actuarial valuation of the JRS' assets and liabilities was performed as of June 30, 1987. An independent actuary used the valuation to determine the adequacy of the financing structure currently available to the JRS. The independent actuary determined that a minimum contribution rate of approximately 81 percent of covered payroll would be required to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1987. This rate was determined in order to fully fund the JRS by January 1, 2002. The minimum contribution rate determined by the independent actuary is significantly higher than the contribution rate of 20.5 percent available under current law.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Up to ten years of trend information will be provided in future years as this information becomes available.

D. Legislators' Retirement System

Plan Description

The Legislators' Retirement System (LRS) is an agent single-employer retirement system. It is administered by the Board of Administration of the PERS, and it operates under the Legislators' Retirement Law of the California Government Code. The LRS provides pension benefits to members of the state Legislature, constitutional officers, and legislative statutory officers who elect to participate in the plan. At June 30, 1988, the LRS had 175 active and inactive members and 219 retired members. The covered payroll for fiscal year 1987-88 was approximately \$5.0 million.

Generally, members become fully vested in the pension plan after four years of service credit. The LRS provides defined retirement benefits based on the members' length of service and final compensation. In addition, the LRS provides benefits for disability and for survivors upon the death of eligible members. Members are generally eligible for retirement benefits at age 60 with four or more years of service or at any age with 15 or more years of service. The

Legislators' Retirement Law currently provides that the State contribute 18.81 percent of applicable member compensation; the members contribute between 4 and 8 percent of compensation.

Investment Matters

The LRS has investments in corporate bonds and debentures, convertible bonds, corporate shares, real estate mortgage loans, and short-term investments. Equity securities are reported at cost subject to adjustment for market declines judged to be other than temporary. Fixed-income securities and real estate mortgage loans are reported at amortized cost. Corporate shares and short-term investments are reported at cost. The market value of investments, where disclosed, is generally based on published market prices and quotations from major investment brokers.

Funding Status and Progress

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the LRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the LRS.

Significant assumptions used to calculate the pension benefit obligation were an actuarial interest rate of 8.5 percent per year and expected salary increases of 5.5 percent, which includes an expected inflation rate of 5 percent.

The following schedule shows the total unfunded pension benefit obligation applicable to the LRS at June 30, 1987 (in thousands):

Pension benefit obligation to:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$52,033
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Current employees:

Accumulated employee contributions including allocated investment income	4,236
Employer-financed vested	11,783
Employer-financed nonvested	<u>132</u>

Total pension benefit obligation	68,184
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Net assets available for benefits, at cost (market value is \$63,791,000)	<u>52,310</u>
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Unfunded pension benefit obligation	<u>\$15,874</u>
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Contribution Requirements

The current contribution requirements of the LRS's are based on actuarially determined rates required by state law. The State was required to contribute a total of \$618,278, which was also the actual contribution.

The last actuarial valuation of the LRS's assets and liabilities was performed as of June 30, 1987. An independent actuary used the valuation to determine the adequacy of the financing structure currently available to the LRS. The independent actuary determined that a minimum contribution rate of approximately 29 percent of covered payroll would be required to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1987. This rate was determined in order to fully fund the LRS by January 1, 2008. The minimum contribution rate determined by the independent actuary is significantly higher than the contribution rate of 18.81 percent available under current law.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Up to ten years of trend information will be provided in future years as this information becomes available.

E. University of California Retirement System

Plan Description

The University of California Retirement System (UCRS) includes a defined benefit pension plan that provides pension benefits to eligible employees of the University of California and its affiliates. The pension plan provides retirement and disability benefits and benefits for survivors upon the death of eligible members. At June 30, 1988, the pension plan had approximately 88,600 members with approximately 12,600 members receiving benefits.

Investment Matters

The UCRS has investments in common stocks, bonds, mortgage loans, and other miscellaneous investments. The UCRS's investments are reported at market value.

Actuarial Present Value of Accumulated Plan Benefits

Actuarial methods and assumptions include the expected return on actuarial value of assets at 8 percent, as well as valuing actuarial assets based on a five-year moving average of market values.

The actuarial present value of accumulated plan benefits of the UCRS at June 30, 1988, was \$4.2 billion, composed of vested benefits of \$4 billion and nonvested benefits of \$270 million. The actuarial present value excludes future salary increases while actual future benefits will be based upon then-current salary levels. When projections for future salary increases are included in this calculation, the actuarial present value of accumulated plan benefits is \$6.6 billion. Net assets available for benefits, using the actuarial value of such assets, was \$7.1 billion at June 30, 1987. After the issuance of the University of California's financial audit report, an independent actuary calculated that the net assets available for benefits, using the actuarial value of such assets, was \$8.5 billion at June 30, 1988.

Funding Policy

The UCRS is funded through the University of California and employee contributions. The pension expense related to the UCRS was \$276.6 million for fiscal year 1987-88. In 1984, the State agreed to pay \$66.5 million in actuarially equivalent installments over 30 years. At June 30, 1988, the amount due from the State was \$63.7 million. This amount is recorded as a receivable from the State and as an interfund receivable and payable between the University of California's Current Funds and Retirement System Funds.

19. Postretirement Health Care Benefits

In addition to providing pension benefits, the State also provides certain health care benefits for eligible retired employees and their survivors. The cost of retiree health care is recognized as an expenditure in the year the benefits are provided. The cost of providing these benefits for retirees in fiscal year 1987-88 was \$173 million, including \$41 million for the University of California.

20. Deferred Compensation Plan

The State offers its eligible employees a deferred compensation plan in accordance with Title 26, Internal Revenue Code, Section 457. Eligible employees may defer receiving portions of their salaries, thereby deferring taxation on those portions, until they leave state service or face a serious financial emergency. The participants direct the plan administrator, the State, to invest the deferred amounts among various investment options. The cost of administration and all funding are the responsibility of those participating in the plans. The State makes no contribution to the plan. However, the money in the plan is available for payment to the State's general creditors where permitted by the Legislature.

As of June 30, 1988, the total market value of assets in the deferred compensation plan was approximately \$972 million. Of this amount, \$960 million is reported in investments, \$12 million in due from other funds, and the corresponding liability of \$972 million is included in deposits. The assets and the liability are reported in an agency fund.

21. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

22. Segment Information - Enterprise Funds

Selected financial information by enterprise fund activity for major segments is shown in the schedule on the following page.

ENTERPRISE FUND ACTIVITY
BY MAJOR SEGMENTS
FOR FISCAL YEAR ENDED JUNE 30, 1988
(IN THOUSANDS)

	<u>Housing Loan</u>	<u>Water</u>	<u>State Compensation Insurance</u>	<u>Student Loans and School Building Aid</u>	<u>Toll Facilities</u>	<u>State University</u>	<u>Leasing of Public Assets</u>	<u>Lottery</u>	<u>Other Enterprises</u>
Operating Revenue	\$ 497,668	\$ 387,833	\$ 1,719,844	\$ 95,903	\$ 86,570	\$ 141,940	\$ 8,898	\$ 2,106,510	\$ 71,486
Operating Income (Loss)	(102,795)	180,714	374,070	54,557	58,168	43,819	(11,402)	785,059	(13,019)
Net Income (Loss)	(2,857)	83,098	374,070	108,848	56,947	28,960	(7,873)	800,473	16,270
Property, Plant, and Equipment Additions	111	107,787	10,232	5	17,159	32,028	334,455	8,168	347
Deductions							88,800	12	391
Total Assets	7,950,546	4,629,784	3,163,488	761,563	992,056	617,770	1,444,741	784,881	396,694
Bonds and Other Long-Term Liabilities	6,987,333	3,107,705	1,045,777	578,906	108,060	211,844	1,121,356	384,518	94,073
Total Equity	595,537	845,663	656,970	177,378	872,153	289,017	17,173		256,858

The primary sources of enterprise fund revenues are as follows:

Housing Loan - Interest charged on contracts of sale of properties to California veterans and to California National Guard members, interest charged on program loans to finance the housing needs of persons and families of low and moderate income, loan origination fees, and interest earned on investments.

Water - Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

State Compensation Insurance - Premiums collected from California employers for insurance against workers' compensation claims and interest earned on investments. This information is as of and for the year ended December 31, 1987.

Student Loans and School Building Aid - Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities, income from the rental of portable classrooms to school districts, and interest charged on loans to students.

Toll Facilities - Toll fees and interest earned on investments.

State University - Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

Leasing of Public Assets - Rental charges from the lease of public assets and interest earned on investments.

Lottery - Sale of lottery tickets.

Other Enterprises - Gasoline taxes and fees related to boating activities, canteen revenues, and processing fees charged by various other departments and authorities.

23. Contingencies

A. Litigation

The State is a party to numerous legal proceedings, many of which normally recur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the State before June 30, 1988; legal proceedings that were in progress at June 30, 1988, and that were settled or decided against the State as of December 4, 1988; and those legal proceedings having a high probability of resulting in a decision against the State as of December 4, 1988, and for which amounts could be estimated. For governmental fund types and expendable trust funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the State is involved in certain other legal proceedings that, if decided against the State, may require the State to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the accompanying financial statements, nor can an estimate of the potential loss be made.

Following are the more significant lawsuits pending against the State:

The State is the defendant in two suits seeking reimbursement for alleged state mandated costs. In City of Sacramento v. Employment Development Department, the plaintiffs are seeking reimbursement of alleged state-mandated unemployment insurance costs. The claimed costs exceed \$200 million. The case is currently on appeal after a favorable judgment to the State. In a separate case, the State is the defendant in Jesse R. Huff v. Commission on State Mandates, in which the state Director of Finance is appealing a 1984 decision by the State Board of Control. The Board of Control decided in favor of local school districts' claims for reimbursement for "special education" programs for handicapped students; however, funds have not been appropriated. The amount of potential liability to the State has been estimated by the Department of Finance at over \$1 billion.

The State is a defendant in two suits related to contamination at the Stringfellow Toxic Waste Site. In one suit, the State is one of approximately 150 defendants in

Penny Newman v. J. B. Stringfellow, in which 4,600 plaintiffs are claiming damages of \$850 million arising from contamination at the Stringfellow Toxic Waste Site. The State is a defendant because it chose the site and approved the deposit of toxic wastes. In a separate suit, the State is one of several defendants in United States, People of the State of California v. J. B. Stringfellow, Jr. The plaintiffs are seeking recovery for past costs of cleanup of the site and an injunction ordering completion of the cleanup. Present estimates range from \$200 million to \$800 million. The State is a defendant because it is the current owner of the site. In both of the above cases, the potential liability to the State in the event of an adverse outcome is unknown.

The State is the defendant in Woosley v. California, a class action suit. The suit alleges overcharges of vehicle license fees and use taxes for out-of-state vehicles that were registered in California from 1975 to 1983. The suit also alleges overcharges of use taxes on all used vehicles registered since 1976. On June 30, 1988, the potential loss from refunds of the vehicle license fees was estimated at \$700 million, and the potential loss from refunds of use taxes was estimated at \$900 million. The case is currently on appeal to a district court of appeal, after an adverse judgement to the State. The State intends to litigate this case to the United States Supreme Court, if necessary.

The State is the defendant in Atlantic Richfield Company, et al. v. State Lands Commission, et al., a suit arising from the Commission's refusal to approve a development project on five state oil and gas leases held by Atlantic Richfield. Atlantic Richfield claims damages of \$54,795 per day since May 27, 1987, resulting from this denial, and damages of \$793 million in the event of a permanent stoppage of development of the leases. The State is currently contesting the complaint.

The State is a defendant in nine cases involving the State's use of the unitary method of taxation. Under the unitary method of taxation, the State taxes multinational corporations on the basis of worldwide earnings, allocated as a percentage of activities within the State. In 1988, corporations were given the option of using the "water's edge" method, which allows multinational corporations to limit the base used for assessing California income tax to a firm's United States operations. In a previous lawsuit, involving a domestic parent of a multinational corporation and the unitary method of taxation, the United States Supreme Court decided in the State's favor. However, the current suits relate to the foreign parent of a multinational

corporation. In the event of an adverse outcome, the potential liability to the State could exceed \$700 million.

The State is a defendant in a coordinated action involving 3,500 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The potential liability to the State in the event of an adverse outcome of the litigation has been estimated to be in excess of \$100 million.

The State is the defendant in the Long Beach Petroleum Antitrust Litigation. This is a counterclaim suit in which several major oil companies are alleging that the City of Long Beach and the State Lands Commission failed to provide sufficient funding to adequately produce oil resources. In the event of an adverse outcome, the potential liability to the State could exceed \$100 million.

B. Federal Audit Exceptions

The State receives substantial funding from the federal government in the form of grants and contracts. The State is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the State may spend these resources only for eligible purposes. If audits disclose exceptions, the State may incur a liability to the federal government.

C. Insurance Program

The State has elected, with a few exceptions, to be self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. Except for the University of California, workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately \$461 million as of June 30, 1988. This liability is included in the accompanying financial statements in the General Long-Term Obligations Account Group. The University of California maintains self-insurance reserves for medical malpractice claims, workers' compensation, and certain other risks. Such risks are subject to various per-claim and aggregate limits, with excess liability coverage provided by an independent insurer. University management and general counsel are of the opinion that the outcome of such matters will not have a significant effect on the financial statements.

24. California State Lottery

For the fiscal year ended June 30, 1988, lottery ticket sales totaled approximately \$2.1 billion. The State Lottery Fund also earned interest revenue of \$18 million. Of the total lottery ticket sales, \$1.05 billion (50 percent) was for lottery prizes and \$800 million (38 percent) was distributed for educational purposes. Lottery operating expenses net of interest revenue amounted to \$258 million (12 percent). The lottery prizes and annuities account consists of \$104 million in current and \$376 million in long-term liabilities.

25. Appropriations Limit

The State is subject to an annual appropriations limit imposed by Article XIII B of the California Constitution. The California Constitution establishes a limit on the growth of certain appropriations made from state tax revenues, adjusted annually for inflation and population growth. All tax revenue received must be appropriated under the provisions of Article XIII B or returned to the taxpayers. (See Note 26 regarding amendments to Article XIII B that were enacted after June 30, 1988.) Any funds not appropriated for specific purposes are appropriated annually to a special account for economic uncertainties in each fund.

The California Constitution imposes no limit on appropriations or funds obtained through nontax sources, such as from reasonable user charges or fees and bond proceeds. The state appropriations limit is also exclusive of certain appropriations such as debt service on voter-approved debt, debt existing when Article XIII B was adopted, and state subventions to local governments that are not restricted in their use. State appropriations to local governments without restrictions are considered tax proceeds for local entities, subject to each local entity's revenue and appropriations limit.

The appropriations limit is established each year in the budget act and is amended during the fiscal year for transfers of fiscal responsibility between the state and local governments. The budget act provides that any judicial action or proceeding to attack, review, set aside, void, or annul the revenue and appropriations limit must begin within 45 days of the effective date of the act. There were no such actions for fiscal year 1987-88.

The governor has reported that the state appropriations limit for fiscal year 1987-88 was \$25.2 billion. The governor also reported that the appropriations subject to the limit for fiscal year 1987-88 were \$24.0 billion, which is \$1.2 billion under the appropriations limit.

26. Subsequent Events

On January 11, 1989, the governor ordered the cancellation of certain General Fund encumbrances outstanding at June 30, 1988, for which the State had not received goods or services as of January 1, 1989. The governor estimates that this cancellation of encumbrances will amount to approximately \$80 million. However, the governor has not identified specific purchase orders and contracts to be cancelled. Additionally, the governor has given the state agencies until February 1, 1989, to cancel encumbrances and until February 10, 1989, to request reinstatement of these encumbrances. Therefore, the fund balance reserved for encumbrances at June 30, 1988, does not reflect any reduction for cancelled encumbrances.

In August 1988, the State Treasurer's Office issued \$3.2 billion in revenue anticipation notes to fund the State's cash flow needs for fiscal year 1988-89. These notes will mature on June 30, 1989.

From July 1, 1988, to January 11, 1989, the State issued approximately \$1 billion in revenue bonds and \$360 million in general obligations bonds. From July 1, 1988, to January 11, 1989, the University of California sold \$117 million in revenue bonds.

In the general election held November 8, 1988, voters approved the sale of \$3.3 billion of general obligations bonds.

Additionally, in the general election held November 8, 1988, the electorate approved two amendments to the California Constitution that exempt certain state revenues from the State's appropriations limit. Effective in fiscal year 1988-89, the California Constitution requires the State to distribute to public schools and community colleges, within limits, state revenues in excess of the State's appropriations limit. The revenue in excess of the appropriations limit, to be distributed to public schools and community colleges rather than returned to the taxpayers, is limited to four percent of the minimum school funding level. The Legislative Analyst estimates this limit to be \$500 million in fiscal year 1988-89. Any remaining amount above this limit would be returned to the taxpayers. Another amendment to the State Constitution effective in fiscal year 1988-89 imposes additional taxes on distributors of tobacco products. According to the Governor's Budget, these additional revenues will amount to approximately \$300 million in fiscal year 1988-89 and \$625 million in fiscal year 1989-90, the first full year the law is in effect. The amended State Constitution declares that these additional revenues are not subject to the appropriations limit and are to be used for specific purposes.

STATISTICAL SECTION

STATE OF CALIFORNIA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION*
AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1988
(IN THOUSANDS)

	1982	1983	1984	1985	1986	1987	1988
General government	\$ 1,236,446	\$ 1,179,961	\$ 1,443,012	\$ 1,718,147	\$ 2,157,385	\$ 1,880,521	\$ 1,842,331
Education	11,810,007	11,937,770	13,229,285	14,991,210	16,953,147	18,242,436	18,873,313
Health and welfare	12,562,103	12,489,066	13,276,927	14,154,000	14,554,960	16,499,778	17,040,861
Resources	578,747	512,442	632,579	599,616	743,931	766,707	765,176
State and consumer services	370,669	312,526	421,453	618,035	711,237	793,572	1,123,851
Business and transportation	1,692,272	1,954,682	2,338,762	2,912,834	2,823,357	2,999,779	3,304,988
Correctional programs	714,817	733,099	845,666	1,211,818	1,264,060	1,855,042	1,846,112
Property tax relief	1,313,515	1,351,061	1,070,154	944,850	925,750	993,548	1,011,781
Capital outlay	457,871	571,868	155,894	294,605	698,967	636,147	686,257
Debt service	218,092	284,346	342,899	375,829	444,942	638,535	678,340
Total	<u>\$30,954,539</u>	<u>\$31,326,821</u>	<u>\$33,756,631</u>	<u>\$37,820,944</u>	<u>\$41,277,736</u>	<u>\$45,306,065</u>	<u>\$47,173,010</u>

* Includes general, special revenue, and capital projects funds.

Source: The general purpose financial statements of the State of California

STATE OF CALIFORNIA
GENERAL REVENUES BY SOURCE*
AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1988
(IN THOUSANDS)

	1982	1983	1984	1985	1986	1987	1988
Taxes	\$19,703,728	\$20,335,164	\$23,261,462	\$26,274,712	\$27,746,989	\$30,650,517	\$31,784,962
Intergovernmental	7,107,839	7,481,043	8,982,156	8,935,870	9,500,748	9,804,735	9,532,594
Licenses and permits	933,158	829,918	902,430	1,224,057	1,237,717	1,275,597	1,389,586
Natural resources	450,996	370,253	401,727	516,017	427,120	167,422	225,340
Charges for services	52,282	120,668	106,251	202,392	212,560	274,388	237,164
Fees	235,968	322,918	640,053	422,103	588,422	627,867	784,597
Penalties	113,488	73,887	66,879	79,568	138,866	406,643	237,600
Interest	401,789	461,753	386,174	626,937	679,011	653,928	612,968
Other	172,804	419,525	98,349	149,565	208,656	429,706	225,105
Total	\$29,172,052	\$30,415,129	\$34,845,481	\$38,431,221	\$40,740,089	\$44,290,803	\$45,029,916

* Includes general, special revenue, and capital projects funds.

Source: The general purpose financial statements of the State of California

**STATE OF CALIFORNIA
RATIO OF GENERAL LONG-TERM
BONDED DEBT TO PER CAPITA INCOME
FOR FISCAL YEARS ENDED JUNE 30, 1978 THROUGH 1988**

<u>Year</u>	<u>General Long-Term Bonded Debt (In Thousands)</u>	<u>Per Capita Debt</u>	<u>Per Capita Income</u>	<u>Ratio: Per Capita Debt to Per Capita Income</u>
1978	\$1,680,644	\$ 74.37	\$ 8,867	.84%
1979	1,727,920	74.97	9,957	.75
1980	1,755,886	74.68	11,049	.68
1981	1,685,352	70.13	12,173	.58
1982	1,791,913	73.04	13,064	.56
1983	2,074,159	82.79	13,507	.61
1984	2,234,900	87.45	14,548	.60
1985	2,771,642	106.31	15,562	.68
1986	3,388,590	126.94	16,375	.78
1987	3,366,735	123.15	17,283	.71
1988	3,248,925	115.96	18,260	.64

Sources: 1978-88, State Controller's Annual Reports; U.S. Department of Commerce, Bureau of Economic Analysis, and California Department of Finance estimates (as revised).

STATE OF CALIFORNIA
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
 GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1988
 (IN THOUSANDS)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures*</u>	<u>Ratio of Debt Service to Total General Expenditures</u>
1982	\$ 86,967	\$131,125	\$218,092	\$30,954,539	0.7%
1983	152,754	131,592	284,346	31,326,821	0.9
1984	184,259	158,640	342,899	33,756,631	1.0
1985	203,258	172,571	375,829	37,820,944	1.0
1986	233,052	211,890	444,942	41,277,736	1.1
1987	271,855	366,680	638,535	45,306,065	1.4
1988	278,610	399,730	678,340	47,173,010	1.4

* Includes general, special revenue, and capital projects funds.

Source: The general purpose financial statements of the State of California.

**STATE OF CALIFORNIA
COMPARISON OF NATIONAL WITH STATE POPULATION
CALENDAR YEARS 1940 THROUGH 1987**

<u>Year</u>	<u>United States Population</u>	<u>Average Annual Percentage Increase</u>	<u>California Population</u>	<u>Average Annual Percentage Increase</u>	<u>California as a Percent of United States</u>
1940	132,457,000		6,950,000		5.2
1950	151,868,000	1.5	10,643,000	5.3	7.0
1960	179,979,000	1.9	15,863,000	4.9	8.8
1970	203,984,000	1.3	20,039,000	2.6	9.8
1980	227,255,000	1.1	23,780,000	1.9	10.5
1981	229,637,000	1.0	24,267,000	2.0	10.6
1982	231,996,000	1.0	24,786,000	2.1	10.7
1983	234,284,000	1.0	25,309,000	2.1	10.8
1984	236,477,000	.9	25,780,000	1.9	10.9
1985	238,741,000	1.0	26,358,000	2.2	11.0
1986	241,078,000	1.0	27,001,000	2.4	11.2
1987	243,400,000	1.0	27,663,000	2.5	11.4

Sources: U.S. Department of Commerce, Bureau of the Census, Current Population Reports; California Department of Finance estimates (as revised).

STATE OF CALIFORNIA
COMPARISON OF NATIONAL WITH STATE PERSONAL INCOME
CALENDAR YEARS 1970 THROUGH 1987

<u>Year</u>	<u>United States</u>		<u>California</u>		<u>California as a Percent of United States</u>
	<u>Personal Income (In Millions)</u>	<u>Percent Change</u>	<u>Personal Income (In Millions)</u>	<u>Percent Change</u>	
1970	\$ 825,500		\$ 95,039		11.5
1971	888,500	7.6	100,865	6.1	11.4
1972	976,200	9.9	110,341	9.4	11.3
1973	1,095,300	12.2	121,784	10.4	11.1
1974	1,204,900	10.0	136,194	11.8	11.3
1975	1,308,500	8.6	149,700	9.9	11.4
1976	1,447,000	10.6	167,708	12.0	11.6
1977	1,602,900	10.8	187,133	11.6	11.7
1978	1,807,000	12.7	214,938	14.9	11.9
1979	2,028,500	12.3	244,775	13.9	12.1
1980	2,254,100	11.1	276,107	12.8	12.2
1981	2,514,200	11.5	308,731	11.8	12.3
1982	2,663,400	5.9	328,033	6.3	12.3
1983	2,834,400	6.4	352,438	7.4	12.4
1984	3,101,200	9.4	389,183	10.4	12.5
1985	3,317,200	7.0	422,142	8.5	12.7
1986	3,521,400	6.2	453,404	7.4	12.9
1987	3,768,100	7.0	492,989	8.7	13.1

Sources: U.S. Department of Commerce, Bureau of Economic Analysis (as revised). (Data for United States represent the total for the 50 states and the District of Columbia.)

**STATE OF CALIFORNIA
COMPARISON OF NATIONAL WITH STATE
PER CAPITA PERSONAL INCOME
CALENDAR YEARS 1970 THROUGH 1987**

<u>Year</u>	<u>United States</u>		<u>California</u>		<u>California as a Percent of United States</u>
	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	
1970	\$ 4,051		\$ 4,746		117.2
1971	4,296	6.0	4,958	4.5	115.4
1972	4,665	8.6	5,360	8.1	114.9
1973	5,182	11.1	5,836	8.9	112.6
1974	5,648	9.0	6,433	10.2	113.9
1975	6,073	7.5	6,951	8.1	114.5
1976	6,651	9.5	7,646	10.0	115.0
1977	7,294	9.7	8,373	9.5	114.8
1978	8,136	11.5	9,411	12.4	115.7
1979	9,033	11.0	10,526	11.8	116.5
1980	9,919	9.8	11,603	10.2	117.0
1981	10,949	10.4	12,723	9.7	116.2
1982	11,480	4.8	13,235	4.0	115.3
1983	12,098	5.4	13,926	5.2	115.1
1984	13,114	8.4	15,096	8.4	115.1
1985	13,895	6.0	16,016	6.1	115.3
1986	14,606	5.1	16,792	4.8	115.0
1987	15,481	6.0	17,821	6.1	115.1

Sources: U.S. Department of Commerce, Bureau of Economic Analysis (as revised).

**STATE OF CALIFORNIA
CIVILIAN LABOR FORCE FOR
RESIDENT POPULATION AGE 16 AND OVER
CALENDAR YEARS 1973 THROUGH 1987**

<u>Year</u>	<u>Labor Force Trends</u> (In Thousands)			<u>Unemployment Rate</u>	
	<u>Total Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>United States</u>	<u>California</u>
1973	8,910	8,286	624	4.9%	7.0%
1974	9,317	8,638	679	5.6	7.3
1975	9,539	8,598	941	8.5	9.9
1976	9,896	8,990	906	7.7	9.2
1977	10,367	9,513	853	7.1	8.2
1978	10,911	10,137	775	6.1	7.1
1979	11,268	10,566	702	5.8	6.2
1980	11,584	10,794	790	7.1	6.8
1981	11,812	10,938	875	7.6	7.4
1982	12,178	10,967	1,210	9.7	9.9
1983	12,281	11,095	1,187	9.6	9.7
1984	12,610	11,631	980	7.5	7.8
1985	12,981	12,048	934	7.2	7.2
1986	13,334	12,444	890	7.0	6.7
1987	13,747	12,955	792	6.2	5.8

Source: California Employment Development Department (as revised).

STATE OF CALIFORNIA
PERSONS EMPLOYED IN
PRINCIPAL MANUFACTURING INDUSTRIES
CALENDAR YEARS 1982 AND 1987
(IN THOUSANDS)

<u>Industry</u>	<u>1982</u>	<u>1987</u>	<u>Percent Change</u>
Lumber and wood products	46.3	66.4	43.4
Textile mill products	12.4	17.0	37.1
Furniture and fixtures	49.0	63.2	29.0
Apparel	102.4	126.7	23.7
Printing and publishing	124.5	152.7	22.7
Transportation equipment	266.3	315.4	18.4
Rubber and miscellaneous plastic products	61.2	72.4	18.3
Electric and electronic equipment	358.0	396.9	10.9
Paper and allied products	37.3	41.0	9.9
Instruments and related products	102.4	110.3	7.7
Stone, clay, and glass products	50.4	53.4	6.0
Chemicals and allied products	65.7	67.1	2.1
Fabricated metal products	138.8	133.6	(3.7)
Food and kindred products	182.5	172.1	(5.7)
Machinery, except electrical	227.6	212.8	(6.5)
Primary metal products	47.6	41.2	(13.4)
Petroleum and coal products	31.7	27.2	(14.2)
Leather and leather products	10.5	6.9	(34.3)
Miscellaneous	<u>43.2</u>	<u>36.6</u>	(15.3)
Total	<u>1,957.8</u>	<u>2,112.9</u>	7.9

Sources: State of California, Department of Finance; California Employment Development Department

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps